Report of the Auditor General of Canada to the House of Commons

Fiscal Year Ended
31 March 1982

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AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Jeanne Sauvé, P.C., M.P.,
Speaker of the House of Commons

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended 31 March 1982, to be laid before the House in accordance with the provisions of section 7(3) of the Auditor General Act, S.C. 1976-77, c. 34.

Kenneth M. Dye

Kenneth M. Dye, F.C.A.
Auditor General of Canada

OTTAWA, 1 December 1982

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REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
FOR THE FISCAL YEAR ENDED 31 MARCH 1982

INTRODUCTION

The principal functions and responsibilities of the Auditor General of Canada are set out in the Auditor General Act, S.C. 1976-77, c. 34, which came into force 1 August 1977. My responsibilities in respect to those Crown corporations for which I have been appointed auditor are set out in sections 76 to 78 of the Financial Administration Act, R.S.C. 1970, c. F-10. The Auditor General Act is included as Appendix A to this Report and the relevant sections of the Financial Administration Act as Appendix B.

In compliance with section 7 of the Auditor General Act, my Report for the fiscal year ended 31 March 1982 is presented herewith.

My examination included general reviews of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. My staff was provided with all the information and explanations required. I should like to express my appreciation and that of my associates in the Audit Office for the co-operation extended to us by officials of departments, agencies and Crown corporations.

The financial statements of the Government of Canada for the fiscal year ended 31 March 1982, which have been prepared by the Receiver General for Canada in accordance with the provisions of section 55 of the Financial Administration Act and appear in Volume I of the Public Accounts of Canada, have been examined by me as required by section 6 of the Auditor General Act. These statements and my opinion and observations thereon are reproduced as Appendix D to this Report.

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

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1

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

1.1 This is my second annual Report to the House of Commons, and it will surprise no one that, after the better part of two years in Ottawa, my perspective has changed somewhat.

1.2 My first impression of sprawling immensity, confusion of purpose, and a sense of urgency comparable to the alacrity of a turtle, remains. But the experience of these past months has convinced me that there are some significant opportunities for improvement in which the work of this Office can be supportive and, in some cases, a catalyst.

1.3 1982 has been a sobering year for all Canadians. We have been awakened to some grim economic realities.

1.4 In such a year, it may seem strange for the Auditor General to strike any note of even cautious optimism. Nonetheless, I do perceive signs for hope.

1.5 I identify the gradual but unmistakable emergence of a new determination in government and in Parliament toward improved management and more stringent accountability.

1.6 Well managed companies faced with falling profits respond with a hard-nosed, conditioned reflex: they urgently seek to cut costs and trim fat. The response of bureaucrats in time of large and rising deficits is less immediate but, if the political will is evident, costs are cut and fat is trimmed. In my view, the political will is now present, and a number of senior managers in the public service are responding with a degree of firmness and courage that has not been seen for some time. Not only is there a welcome attention to controlling costs and numbers, but there are signs of a willingness to face up to dismissing unsatisfactory employees.

1.7 I suspect that the true test of the dedication of both politicians and senior bureaucrats to this leaner approach to management will come before long, when all political parties begin to gear up for the next federal election.

1.8 One of the constant frustrations for Members of Parliament lies in their inability to obtain full financial information before taxpayers' money is committed.

1.9 However, the important reform of the Estimates project is now beginning to provide this crucial information for MPs, giving them a far more detailed understanding of the annual appropriations. The 1982-83 Estimates include 10 Part III Expenditure Plans. At this time, it is anticipated that the majority of the remaining departments and agencies will have Expenditure Plans available during the next two years, with the balance in 1985.

1.10 These are difficult documents to create but, once developed, they are vital tools for parliamentarians in their role of keeping Government accountable.

1.11 My cautious optimism, however, also lies in less tangible things. My work brings me into constant contact with many senior managers in government, and I sense a new attitude with respect to improved financial control and a renewed interest in accountability. I cannot rely on audit evidence for this impression. But the signs are there.

1.12 This leads me to something else which I think should be said about this whole annual Report. Auditors, traditionally, tend to highlight concerns of a negative nature. That remains true even when we strive for fairness and balance in our reporting.

1.13 However, my view of the Ottawa bureaucracy is that there are many in it who deserve plaudits for their constructive efforts toward improved value for money for taxpayers. These dedicated people cannot, in the ordinary course of things, be known to the public. Nor, I suspect, will they be able to recognize themselves in this Report. The truly dedicated public servant does exist and does care. And I want that fact to be known and recognized.

1.14 In an effort to improve our own efficiency, we are seeking, with the co-operation of the Public Accounts Committee, ways to speed up the reporting of our findings and subsequent discussion of them. This will require an amendment to the Auditor General Act, and it may also require more selective reporting on our part to facilitate the work of the Public Accounts Committee. However, this Report follows past practice and covers our work for a complete year.

1.15 In Chapter 1, it is customary for the Auditor General to comment on matters that seem to him to be of special importance. I concentrate here on those issues that I believe provide significant opportunities for improvement and, therefore, are of special importance to Parliament.

Crown-owned Corporations - A Sub-government

1.16 The most important of these matters, I believe, has to do with the accountability of corporations owned by the Government of Canada. This is a matter of consequence both for Members of Parliament and for taxpayers. The citizens of Canada have a right to consider themselves the principal shareholders of these organizations; parliamentarians speak for them. Crown-owned corporations must be held accountable through Parliament.

1.17 These organizations have a greater impact on the economy and the life of Canadians than ever before. There are now more people working for Crown-owned organizations than there are working in government departments and agencies when the RCMP and the Armed Forces are excluded. A sub-government has been created to fulfil some of the social and economic aims of Government. This sub-government structure is not as accountable as I believe it should be. If Parliament does not soon awaken to this phenomenon, which increasingly isolates Parliament from activities it should scrutinize and approve, Parliament may not be able to exercise its fundamental responsibility of overseeing the receipt and expenditure of public funds.

1.18 It would be convenient, and would make for more consistent treatment and better control, if all these corporations and organizations could be described as "Crown corporations". The term in Canada applies to those corporations defined in the Financial Administration Act as ultimately accountable, through a minister, to Parliament for the conduct of their affairs and named in schedule B, C or D to the Act. Unfortunately, there has been a tendency in recent years to establish corporations generally subsidiary to existing corporations, under the Canada Business Corporation Act, without naming them in the schedules of the Financial Administration Act. Seemingly, they are less accountable to Parliament.

1.19 **Bill C-123.** This problem has now been recognized by the Government, and Part V of Bill C-123, an Act respecting the organization of the Government of Canada, will place most Crown-owned corporations under the Financial Administration Act. This is a sound and necessary step toward bringing these corporations under a more satisfactory level of scrutiny by Parliament. The exceptions will be the cultural corporations, the Bank of Canada and the Canadian Wheat Board.

1.20 I believe that all corporations owned by the Crown should ultimately be accountable to Parliament. The legislation as drafted and the Government's policy statement make it clear that the intent is to bring all Crown-owned corporations under closer control of the Cabinet, but this does not automatically mean accountability to Parliament, nor does it equate with public scrutiny.

1.21 The intention of the new legislation is to improve ministerial control and direction over these corporations and to bring their financial activities into the planning and decision making associated with the Policy and Expenditure Management System. The legislation contains requirements for corporate plans, controls on acquisition and disposal decisions, controls on corporate borrowing and provision for the Government to exercise, where necessary, all the rights of a sole shareholder under the Canada Business Corporations Act. It is helpful legislation as far as it goes, but I am not satisfied that it addresses significant concerns of mine or of my predecessor or of the Royal Commission on Financial Management and Accountability. Chapter 2 of this Report outlines my views on what is needed to achieve adequate accountability to Parliament by Crown-owned enterprises.

1.22 In a policy statement, the Government said that what is needed is not an indiscriminate increase in controls and legislation. The purpose of the Bill is to provide effective support for ministers in their use of tools, which are either available now or will become available soon, designed to establish needed direction, control and accountability of Crown-owned corporations.

1.23 Clearly, in the Government's view, the present unsatisfactory accountability regime is at least as much an administrative failure as a shortcoming in law.

1.24 This may well prove to be true if one thinks only of the accountability of these corporations to the respective responsible ministers. But there is a further level of scrutiny which is, at times, even more important. This is the scrutiny of Parliament. At present, the degree of parliamentary scrutiny to which Crown corporations are subjected varies from sporadic to virtually none. And those Crown-owned corporations which, up to now, have not been included in the schedules to the Financial Administration Act, also vary greatly in the degree of parliamentary interest they attract. But in general they have been less likely to attract the attention of Parliament than those corporations that have been subject to the requirements of the Financial Administration Act.

1.25 The improvements sought by the Government will require more diligent staff work in the offices of the ministers and more co-operation on the part of the Crown corporations than has been the rule in the past. Any observer of Government will be painfully aware of the risks. The inter-relationships are complex: officers to directors; officers to ministerial staffs; officers to ministers; directors to ministers. Responsibility for speaking or acting on behalf of the Government is shared among the departmental minister, the Minister of Finance and the President of the Treasury Board.

1.26 There is also the serious risk of conflict of interest for the public servant who wears one hat as deputy minister or assistant deputy minister in a department of government and another hat as a director of a Crown corporation.

1.27 Notwithstanding these risks, the Government's recognition of the present inadequate accountability and direction is encouraging. In my opinion, this is also the logical time to provide for comprehensive auditing of these corporations. Such audits would prove most helpful to ministers and to Parliament in their endeavours to improve the direction of these enterprises.

1.28 The fear and the argument in the management ranks of government-owned corporations will be that, even with the limited accountability measures announced by the Government, their freedom to act in the corporate community will be severely curtailed, perhaps to the point where management cannot do its job. This is always the argument and it is a risk. However, I am convinced that the risk has to be taken.

1.29 If an organization is established to accomplish a public purpose, then its finances must be specifically subject to the scrutiny of Parliament. Experience in Canada would suggest that if Crown-owned corporations are to be held to the social purposes for which they were established, their activities must be visible to Parliament and to the public. Failing this, there is a high probability they will serve primarily their own corporate interests.

1.30 **Classifying Crown-owned organizations.** What is material in this argument, however, is the whole question of classification of these organizations. It is clear, I think, that some Crown-owned entities require and merit a greater degree of independence of action and decision-making than others. Partly for this reason, there is a definite need for an organized and regular review of the classifications of Crown-owned and controlled corporations. There is also the fundamental need to review periodically whether a given corporation should continue to exist as a Crown agency. This evaluation should be done by Government and considered by a committee of the House of Commons.

1.31 If management of a corporation is to be held publicly accountable, then Parliament must first decide and management must know, what it is the corporation is supposed to be achieving. That seems simple enough. But the fact is that the broad public purposes for which these corporations were established are frequently not spelled out either in legislation or anywhere else in a public document. It is hardly surprising, then, that accountability for public policy objectives by these corporations is an elusive target.

1.32 Management, which may have understood the public policy objectives at the time of incorporation, may, through change of personnel, shift its attention from the original purpose and become preoccupied with quite a different set of objectives. These objectives may be concerned with achieving economic power to be used in ways not envisaged by Parliament or the Canadian taxpayers when the company was established.

1.33 **Petro-Canada -- an example.** The apparent change in orientation can be dramatic. Petro-Canada is a recent example. When the Petro-Canada Act was given second reading in the House of Commons, the Minister of Energy, Mines and Resources placed great emphasis on the need for energy development, including risky and costly exploration in the far north, and government-to-government oil deals. However, the company's biggest financial undertaking to date, involving an investment of $1.7 billion, was in the oil refining and marketing business -- Petro-Canada's purchase of Petrofina.

1.34 Department officials have informed us that the wholly-owned Crown corporation, Petro-Canada, was used by the Government to identify, evaluate, recommend and negotiate the acquisition. This means the Government of Canada chose to delegate the implementation of a crucial decision concerning the National Energy Program to an entity that is not fully accountable to Parliament. This constitutes a serious weakness in the management of public funds.

1.35 I would have expected that the parties processing and authorizing such an expenditure would have available an evaluation of the entity to be purchased, its value in relation to price, alternate strategies to be considered in acquiring the entity, the implications of such a purchase for the purchaser (the Government of Canada) and the means of financing such a purchase.

1.36 Since none of this material was available in the Department, we have not yet been able to assess whether the $1.7 billion invested by the Government of Canada for the purchase of the shares of Canadian Petrofina Inc. was expended with due regard to economy. During our comprehensive audit of the Energy Section of Energy Mines and Resources in 1982-83, we will continue our investigation of this matter.

1.37 **Letters of Comfort -- another illustration.** With regard to this whole area, another illustration is useful, I believe. One of the fundamentals of our parliamentary system is the requirement that all money bills must be introduced by the Government of the day and passed by the House of Commons. But there is a practice that has the effect of making Parliament into a large rubber stamp. This is the use of the Letter of Comfort, a device under which a minister is authorized by the Cabinet to support the credit of a corporation. Even when they contain a disclaimer, the moral obligation of the Government is clear. Thus, although the guarantee of money drawn from a bank under a Letter of Comfort must later be authorized by Parliament in the Main or Supplementary Estimates, the obligation is already firm, either legally or morally.

1.38 The amounts involved can be disconcertingly significant. In the last six years, more than a billion dollars has been advanced to Canadair through a sequence of Letters of Comfort. These were authorized by Parliament on 31 March 1982. The authorized limit is $1.35 billion. This amount of taxpayers' money is at risk without what I would consider clear criteria and objectives for providing, continuing, or terminating support. This example is all the more disturbing because there is no assurance that $1.35 billion is sufficient.

1.39 **Government support for troubled companies.** In this period of severe recession, government support for such troubled companies as Massey Ferguson, DeHavilland, Canadair, and, more recently, Maislin Industries and Dome Petroleum, represents very big risks, even against the scale of current budgets. It is not my task as an officer of Parliament to debate the merits of government intervention, but I am certain that, in the circumstances, it is particularly important that reliable information be available to ministers concerned and to Parliament. Parliament's control of the public purse must be secure, particularly when such troubled corporations have a tendency to become Crown corporations.

1.40 My Office will follow these situations to satisfy ourselves that the information supplied to ministers and to Parliament is as complete as possible and that Parliament's authority is not usurped. We will report and criticize any device that has the effect of committing Parliament in advance of its considering the issues at hand.

1.41 **Achieving accountability.** The problem of achieving accountability is, however, massive in its dimensions. There are more than 300 of these corporations, including subsidiaries, employing some 263,000 Canadians. Revenues of Crown corporations in the most recent fiscal year were $31.9 billion, and expenses were $33.6 billion. Most of these corporations are virtually unknown even to the best informed members of the tax-paying public. Yet, in the aggregate, they represent a hole in the taxpayer's pocket, resulting, as they often do, in a consistent negative return on investment.

1.42 It may be helpful in visualizing the scale of the problem to think of the whole group as an enormous iceberg floating lazily in the foggy Atlantic; silent, majestic, awesome. The public tends to see only the upper portions, consisting of the giants like CNR, Petro-Can, CBC, Air Canada and Canada Mortgage and Housing Corporation. The great bulk of the iceberg below the surface is less spectacular, less likely to attract public interest, less likely to receive the attention of Parliament, yet costly to the taxpayers. Indeed, deep down near the bottom of the iceberg are subsidiaries of Crown corporations that may escape all public scrutiny.

1.43 With the tabling by the Minister of Agriculture on 16 July 1982 of our comprehensive audit report on the Canadian Dairy Commission, the question of accountability assumed a new dimension. Beyond the accountability of the Commission to the Minister, and through him to Parliament, lay a further question. What of the accountability of the Commission to the dairy industry that arises from the imposition of a levy to finance losses which occur in disposing of surplus dairy products overseas? These levies are of the order of $120 million annually.

1.44 I am convinced that the application of the comprehensive audit to Crown corporations such as the Canadian Dairy Commission significantly strengthens the chain of accountability.

1.45 **Auditing Crown-owned corporations.** Throughout the twentieth century, there has been frequent public debate in Canada, in the United Kingdom and elsewhere concerning the appropriate balance between independence and freedom to act on the one hand and accountability on the other. Accountability to whom? To a Minister of the Crown and through the Minister to the Cabinet? Through the Minister to Parliament?

1.46 These questions have proved controversial enough. But they are only part of the problem.

1.47 There is also the question of the role of the auditor. The auditor's role is to make intelligent and informed scrutiny possible. His report is an instrument that permits the owners to take a searching look at an operation and to ask the right questions. The owner's objective is to determine whether the corporation is achieving the social purpose for which it was established. Is it doing so economically, efficiently and effectively?

1.48 If accountability is to be achieved, the scope of the audit must be sufficient to bring out the facts. Parliament, through one of its committees, must then take the time to complete the cycle of scrutiny.

1.49 Unfortunately, neither side of this equation is now satisfactory.

1.50 The Auditor General is at present responsible for the attest and legislative audit of some of the Crown-owned corporations; others are audited by private sector firms. In my view, the Auditor General, as Parliament's auditor, has a responsibility to satisfy himself as to the scope and quality of all these audits.

1.51 There are a number of ways in which this can be accomplished. My first reaction was to suggest a simple solution: the directors of certain corporations audited by the private sector would invite the Auditor General to sit with the firm's audit committee. Only one of the Crown corporations extended such an invitation.

1.52 My Office will monitor audit activities of private sector auditors reporting on Crown-owned enterprises and should be in a position to determine whether Parliament is kept as informed as it should be. We will also assist private sector auditors in their understanding of their legislative audit responsibilities.

Our objective will be to have the accounting profession apply consistent audit practices. In a joint venture between my Office and my private sector colleagues, we are endeavouring to develop consistent audit practices for Crown-owned enterprises.

1.53 **Comprehensive auditing of Crown-owned corporations.** Throughout what has become a prolonged debate on the appropriate scope of audit in these corporations, no one has challenged the simple fact that any effective scrutiny of the activities of a corporation, Crown-owned or otherwise, requires the aid of a competent audit. The principle of the financial or attest audit is so firmly established that we take the requirement for granted. We also tend to assume a quality which is not always present.

1.54 The more searching comprehensive audit, to which all departments of government are now subjected as a matter of course under the Auditor General Act of 1977, is another matter. Curiously, this broad-scope audit approach, perhaps because it does raise the level of scrutiny, is resisted by some of the more prominent Crown corporations and their directors. Although several major corporations have chosen to undergo broad-scope audit, for others the very mention of comprehensive auditing can escalate the discussion from a philosophical to a highly emotional level.

1.55 In a way this is surprising. It may be that the arguments in support of comprehensive auditing have been too formal, too heavy with the professional's careful phrasing. The real advantage can be stated very simply: the comprehensive auditor turns his attention from the fly in the soup to the quality control -- or lack of it -- in the kitchen.

1.56 This means looking at the planning, right down to what is required of the individual. It means examining the standards for performance. It means evaluating any systems that exist to provide information to management about whether the organization is achieving its targets. How well are the variations from plan and standard analysed? How promptly and how well are remedial actions taken?

1.57 This adds up to a careful assessment of the overall health of the organization. A comprehensive audit is designed to determine whether value for money is being received by the organization. Are its operations carried out economically and efficiently, and are there measures in place to determine whether the organization is effective in achieving the purpose for which it was established?

1.58 Comprehensive auditing goes beyond the transaction to the organization behind it. If one audits the transaction alone, then the fly in the soup is the focus. But to find out how the fly got there, it is wise to look at quality control in the kitchen -- the organization. Comprehensive auditing does just that.

1.59 The Public Accounts Committee endorsed comprehensive auditing for Crown corporations in its Fourth Report issued in February 1981. Specific reference to comprehensive audit does not appear in legislation before the introduction of Bill C-85. This Bill, intended to establish the Crown corporation, Canagrex, to market Canadian agricultural produce abroad, was introduced in the summer of this year. Section 29(4), as amended in committee, reads:

> The accounts of Canagrex shall be audited annually by the Auditor General of Canada and the Auditor General may, where he deems it necessary, conduct a comprehensive audit of the affairs of the corporation.

1.60 Thus, although Canagrex will not be the first Crown corporation to undergo a comprehensive audit, when the legislation is passed, it will be the first for which such an audit is mandatory if, in the opinion of the Auditor General, it is deemed necessary. Clearly, this is a step in the direction of statutory requirement for more thorough audit of Crown corporations. It is a key to more satisfactory scrutiny and accountability.

1.61 If one is to understand the way in which Government tends to see the relationship with the Crown corporations, and especially the more prominent among them, it is useful to attempt to look at these corporations from the Government's perspective. What does Government expect of the Crown corporations?

1.62 There are, I think, three requirements. The first is the accomplishment of the objectives which have been set by the Government for the corporation. The second, good management, is likely to be required to achieve the first requirement. And good management is likely to be important to achieve the third requirement -- the avoidance of political embarrassment. The order here may be logical, but there are undoubtedly occasions when it is reversed.

1.63 No government, and for that matter no senior public servant, relishes political embarrassment. Yet it may be the duty of the auditor to cause it. Not deliberately, for it is not the auditor's job to be concerned with the possible political consequences of his findings.

1.64 All governments are aware of this. However, my Office has been unable to find a single instance in the past seven years where a private sector auditor of a Crown corporation has felt compelled to insist that his report go to Parliament. This may explain, at least in part, why some ministers find the traditional financial audit more comfortable to contemplate than the more searching comprehensive audit.

1.65 Put simply, my concern lies in the fact that, although the Government of the day holds the shares of these corporations and is technically the owner, the real owners in a democratic society are the citizens, who, if they are kept informed and are not satisfied, have the power to change governments. If the real owners are to be kept informed about the stewardship of the management of these corporations and about the stewardship of the Government with respect to them, then Parliament must have access to relevant, reliable information.

1.66 In fact, during this past year my Office completed comprehensive audits of several corporations which we did not report directly to parliament. At the request of the Board of Directors of the Northern Transportation Company, my office and Deloitte Haskins and Sells, Chartered Accountants, jointly carried out a comprehensive audit of the Company. We found that in all significant areas management was operating with due regard to economy and efficiency. This was reported to the Board.

1.67 Similarly concerning the Teleglobe audit, I am pleased to report that Teleglobe found this comprehensive audit exercise to be stimulating and rewarding and thanked my office for the constructive approach that we took in the course of this audit.

1.68 In another instance, our comprehensive audit of the International Development Research Centre concluded that the Centre manages its resources in a satisfactory manner. It endeavours to serve its clients well and is extremely well regarded in developing countries. Management has accepted our recommendations for certain improvements, and action is already under way to implement most of them.

1.69 Independent, thorough audit is a required component if accountability to Parliament is to be achieved. The Auditor General must be in a position to insist that audit information be made available to Parliament when he considers it of sufficient consequence to merit the attention of Members.

1.70 Parliament should also be aware of issues regarding control and accountability of mixed enterprises and other entities in which the Crown is not the sole shareholder. A study of mixed and joint enterprises was recommended by this Office in 1979. To date nothing has been published on the topic. I am still concerned.

Information for Ministers

1.71 In the concept of responsible government, ministers are jointly and severally responsible to Parliament for the actions of government. This stern accountability presupposes that ministers are making decisions on the basis of a reasonable knowledge. This knowledge involves not only political considerations, but also the anticipated financial, economic and social effects. The latter is where the accountability and responsibility of the public service comes into play. And it is this accountability for which I have audit responsibility.

1.72 I believe that it is the responsibility of senior public servants and officers of Crown corporations to ensure that ministers are provided with objective information setting out reasonable and feasible alternatives. Then, with such information, a minister can be expected to make an informed judgement.

1.73 It is also the responsibility of senior public servants and officers of Crown corporations to see that the resulting decisions of ministers are carried out as economically and as efficiently as possible.

1.74 When we look at the quality of information provided to ministers, we check to see that all relevant factors have been considered; that these have been analysed in a technically competent manner in relation to the goals of the activity; and that the information has been clearly and concisely presented to ministers.

1.75 Unfortunately, we are finding that ministers are not always receiving this kind of information, even when the consequences of the decision at hand may be very far reaching indeed. The purchase of Petrofina is an example where the department did not provide such an analysis. VIA Rail is another. There are more.

1.76 Consider for instance, the sad story of Consolidated Computer Incorporated. This is the kind of financial tragedy to which Government as financier seems only too prone. In this instance, the taxpayers may also have been caught up in what amounted to a desire by a Crown-financed corporation to get into production of peripheral computer technology and perhaps even main frames, all without sufficient research into the market and totally without anything resembling adequate financial planning, accounting or controls.

1.77 But it is also a story of incomplete information supplied to ministers who had to make key decisions and who did not seem to know the full story until very late in the day. By that time, $94 million was required in supplemental estimates to honour loan guarantees and pay current interest charges.

1.78 It is interesting that advice called for from a competent national accounting organization was ignored. Yet the advice was good and sounded a fair warning. Had it been heeded, it might have saved the taxpayer at least part of the loss. It would most certainly have saved the Government considerable embarrassment.

1.79 Once again, I am driven to the conclusion that if accountability is to be achieved, there must be an audit, both of an organizational and financial nature, sufficient in scope to uncover the problems. This must be followed by scrutiny at the level of Parliament. Without public exposure, the temptation is overwhelming to send good money after bad in the hope of reversing the situation, no matter how hopeless that situation has become.

1.80 Because of the seriousness I attach to the senior public servants' responsibility to see that ministers are properly briefed, I intend in all forthcoming comprehensive audits to assess the quality of information provided to ministers during the decision process. We will follow up to see that formal instructions of ministers are carried out by the public service.

1.81 There are times, of course, when senior public servants feel, with some justification, that they have to answer for sins that are not their own. Last year, I commented on my impression that the deputy ministers and heads of Crown corporations I had met struck me as highly motivated, hard working, intelligent and representing a wide variety of experience. I have had no reason to change my mind. Although it is my responsibility to criticize constructively the activities for which they are responsible, I am very much aware that there are occasions when, in endeavouring to support their ministers, they take responsibility for decisions that have been taken politically and have been taken before they have had any opportunity to bring their influence to bear.

Internal Audit

1.82 Under the terms of the Auditor General Act of 1977, the Auditor General is required to comment when money has been expended without due regard to economy or efficiency. Such situations tend to arise when there has been poor management, inflated costs or political intervention.

1.83 An example involving all three, aired in the press, was the internal auditors' report on the construction of the Montreal Postal Terminal. It is a good example of internal audit reporting excessive costs incurred in a situation where, for what appear to have been purely political reasons, money was expended in large amounts without due regard to economy and efficiency. It is interesting to note that this example came to light publicly when an internal audit report was made public after it had been declassified.

1.84 There is a concern, which I share, that pressure may be brought to bear on the internal audit organizations within government to avoid comment which, if made public as a result of the Access to Information Act, would embarrass the Government.

1.85 Should this occur, it would be a serious challenge to the professional integrity of the staffs involved and a matter of direct concern to my Office because of our dependence on the quality and integrity of the work of internal audit. Indeed, I urge the internal auditors to continue striving for greater competence and independence.

1.86 It is my intention during my term in office to review every major capital project which the Government undertakes.

Access to Information

1.87 In last year's Report I expressed a concern I had with respect to access to information. I indicated my uneasiness at the reluctance my auditors encountered from time to time in departments and agencies where I would have expected complete frankness. I said I would keep a watchful eye on the experience of my auditors during the audits of the 1981-82 fiscal year.

1.88 Having now had an opportunity to study the principles involved, and having followed closely the experience of my auditors, my conclusions are clear cut. Parliament has enacted legislation that requires that the Auditor General shall have access to all information he deems necessary to fulfil his responsibilities. These rights and privileges are consistent with the legal and constitutional conventions governing access to information by the national legislative auditors of the major commonwealth democracies, the United States, and private sector auditors performing statutory audits.

1.89 My auditors have been instructed to inform me of any incident in which information is withheld by a public servant. I will assess any such incident in terms of its impact on the work of my Office and on Parliament's right to hold the Government accountable.

1.90 I have also held discussions with cabinet ministers and senior officials on this matter. Our exchange of views has been candid and has, I believe, contributed to an increased mutual understanding. To date, my Office has received the information required, although in certain instances the receipt of material was subject to significant delay.

1.91 If I am to fulfil my responsibilities to Parliament and to the people of Canada, I must have complete access to all relevant documents, including Cabinet documents, when I believe I need to know their contents. I am sensitive to the Government's concern about confidentiality of information. I believe its position is reconcilable with the principle of the Auditor General's right of access to information. I believe the rights of Parliament are impaired if Parliament's auditor has limitations in audit scope or if his auditors encounter difficulty obtaining information essential for the expression of audit opinions. Indeed, an essential safeguard of the institution of Parliament is an attitude of openness.

The Financial Statements of the Government of Canada

1.92 This year I have concluded that the Government's accounting policies are not only inappropriate to achieve a fair presentation of information, but, in one significant instance, they have not been followed.

1.93 I have included four reservations in my opinion on the Government's 1982 financial statements. Three are basic concerns with the appropriateness of the Government's accounting policies:

- Although the financial statements are entitled "The Financial Statements of the Government of Canada", they do not include significant activities of the government on a basis I consider appropriate.
- International development assistance loans and subscriptions are over-valued by $3.9 billion because of the concessions written into them.
- Obligations totalling approximately $14.5 billion, which include amounts payable under statutory appropriations, employee termination benefits and actuarial liabilities arising as a result of indexing employee pensions, are not recorded.

Further, in direct contravention of its own accounting policies, the Government has reported $445 million of oil export charge revenue as a liability.

1.94 The Standing Committee on Public Accounts, the Government, and I all have an interest in the development of improved summary financial reporting for the Government of Canada. The Canadian Institute of Chartered Accountants, through its Public Sector Accounting and Auditing Committee, is also interested in improved reporting for government. Although I am concerned, I am hopeful that, through appropriate consultation, the common goal of providing financial information that best serves the needs of users will be achieved as soon as possible.

1.95 My reservations are set out in more detail in my Opinion and the related "Observations of the Auditor General on the Financial Statements of the

Government of Canada" reproduced from Volume I of Public Accounts of Canada in Appendix D.

Year-end Spending

1.96 On a number of occasions over the past year, Members of Parliament and taxpayers have expressed their concern at what they have perceived to be the spending of massive amounts of taxpayers' dollars in the final weeks of the fiscal year. Implicit in this concern is the assumption that such spending is wasteful.

1.97 We made an analysis, based on information contained in the Government of Canada's monthly "Statement of Financial Operations", which is prepared by the Department of Supply and Services. The total expenditures were listed on a month-to-month basis for a period of six years. When the results are plotted, it becomes clear that exaggerated spending does indeed occur at year end. Exhibit 1.1 shows monthly government budgetary expenditures in billion of dollars. Exhibit 1.2 shows the same expenditures month by month, expressed as a percentage of total annual expenditures.

1.98 Financial transactions in the government are accounted for on a monthly basis, with supplementary periods at the year-end to account for final transactions and adjustments. In the exhibits, these final transactions and adjustments have been included with the March amounts, since such expenditures or accruals, for the most part, occur and relate to March activities.

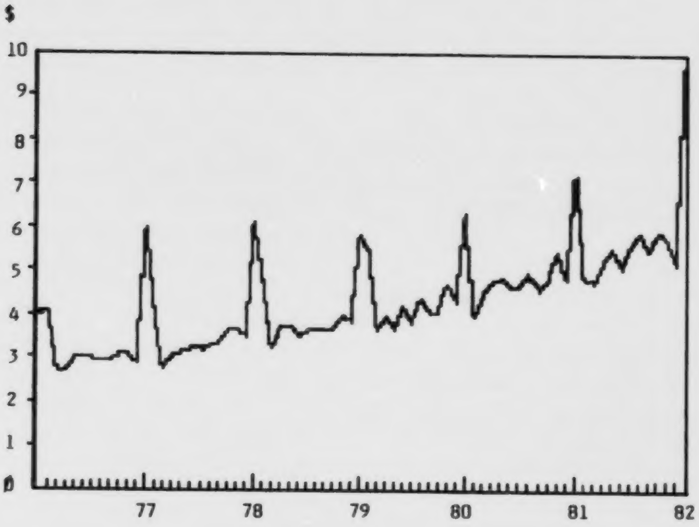
1.99 Using the same data, we prepared a separate chart for each government department and found that the heavy year-end spending pattern occurs in most departments. However, the data becomes less reliable at the departmental level because other factors, such as organizational and program changes, distort the underlying patterns of expenditures.

1.100 Notwithstanding these limitations in the data and the nature of the accounting system, it is apparent that heavy spending does occur at the end of the fiscal year and that this pattern re-occurs year after year.

1.101 This does not mean that year-end spending is automatically wasteful. To conclude that, simply because it occurs, year-end spending is necessarily wasteful would be an unfair and dangerous generalization. The very nature of the budgetary system encourages withholding discretionary expenditures until later in the fiscal year. This is done to retain flexibility to deal with unexpected events or needs. Then, as the year-end approaches, remaining amounts are spent to achieve overall program objectives. This is a practice common in the private sector and may well represent a prudent, cautious concern for cash management.

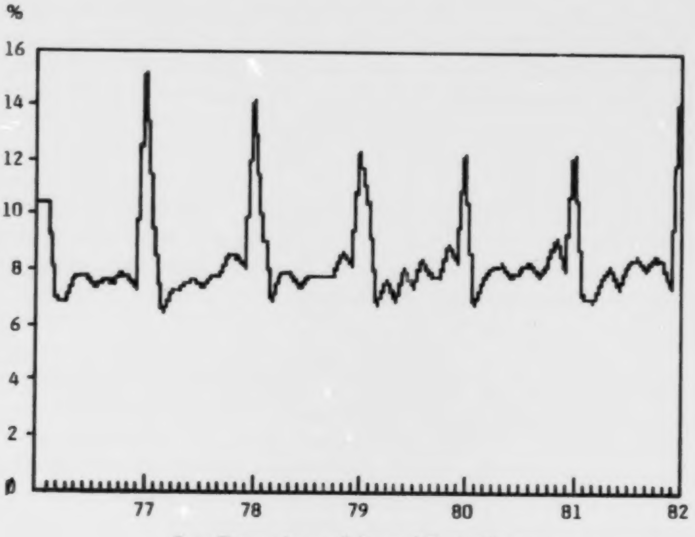
TOTAL GOVERNMENT BUDGETARY EXPENDITURES
BY MONTH, FROM 1 APRIL 1976 TO 31 MARCH 1982

Exhibit 1.1



In Billions of Dollars

Exhibit 1.2



As a Percentage of Annual Expenditures

1.102 There are, of course, potential abuses of any system of control. The volume of year-end spending does not, of itself, constitute an abuse. Neither does such spending automatically establish that it was necessary and that value was received for the money spent. In this period of restraint, it is particularly important that there not be improvident spending. Unfortunately, in the past, deputy ministers have had plenty of opportunity to observe that, whereas in the private sector a "lapse" is rewarded, in the public sector it is penalized.

1.103 To determine whether there are significant abuses of the existing control system, I intend to review year-end expenditures in more detail as part of a Cash and Debt Management study.

Performance Review and Employee Appraisal

1.104 During the past several years, my Office has carried out a variety of studies in the area of human resource management. In the current year, this work included a survey among government employees to determine the effectiveness of the appraisal system. Some of our findings are sufficiently disturbing that I have concluded they should be brought to the attention of Members of the House of Commons.

1.105 Fundamental to satisfactory productivity in any form of endeavour is the relationship of the individual supervisor with the individual employee. Both must know what is expected of the employee, not just in a general way, but in sufficient detail that neither can be in any doubt. But this knowledge, of itself, is not sufficient. Equally important is a continuing communication, so that supervisors are aware of the level of productivity achieved, and employees know whether their performance is satisfactory. If it is not, what can they do to improve it?

1.106 Our audit of the performance review and employee appraisal practices in the public service has produced some disturbing information and raised some serious questions concerning the effectiveness of this process. These are discussed more fully in Chapter 5 of this Report.

1.107 The results of a survey questionnaire indicate that 68 per cent of employees feel the present review and appraisal process has little or no effect on the way they do their jobs. Forty-two per cent said their performance was discussed only once a year, at the time of the annual performance review, and 47 per cent said they did not receive enough information on their performance problems or weaknesses.

1.108 Both my predecessor and I have previously expressed concern about productivity in the public service, and this year's audit of performance review and employee appraisal practices in the public service has reinforced this concern.

1.109 All is not well when 30 per cent of public servants covered by the survey say they do not know the job performance expected of them. If this percentage is extrapolated to the whole of the public service, it suggests that a substantial proportion of the total salary bill is paid to men and women in the service who are not clear in their own minds about the job performance expected of them.

1.110 Performance review should be one of the key management systems in the public service, influencing productivity in a positive way. But if the performance review and appraisal system is not contributing as it should in this positive sense, it is also seriously lacking as an aid to weeding out employees who will not or cannot perform satisfactorily.

1.111 One of the complaints about the public service heard all too frequently in the private sector is that it is too secure; that, once in, the employee is safe from the possibility of dismissal for incompetence or refusal to perform to standard. Our findings suggest there has been some basis for this charge. In the seven departments audited in this study, only one per cent of employees were appraised to be unsatisfactory. If one projects this percentage, one finds that only 2,156 employees out of the 215,643 who were subject to the Public Service Employment Act in 1981 were not performing satisfactorily. During the whole of 1981, just over 500 employees were rejected on probation, discharged, or released from the public service for reasons of incompetence or incapacity.

1.112 Since it has long been perceived impossible to discharge an employee without a sequence of strong evidence, part of which should be appraisal reports, failure to complete these reports factually often leaves the drones secure, at least for a considerable period of time, and helps to give the public service a reputation it does not need or deserve.

1.113 The significance of these findings comes into sharp focus when one considers the continuing problems of achieving satisfactory productivity and controlling numbers within the public service, particularly in time of severe recession. Fortunately, there are signs of a new firmness.

Main Messages in the 1982 Report

1.114 As many readers will be aware, we organize our audit activities in such a way that teams cover each department and agency. Depending on the scope of the audit in a given year, a given team may be a small group of professionals trained in financial audit, or may include various specialists from other disciplines if the subject warrants. We also organize a number of special audits each year that draw on information from a group of departments sufficient to be statistically representative of the public service. These are referred to as government-wide audits and have to do with some particular theme, as for example accountability in Crown corporations, or some aspect of human resource management.

1.115 Where, in our opinion, findings of the auditors warrant, we devote a chapter of this annual Report to the work of each team. We are aware, however, that it would be a convenience for many readers to concentrate our main messages in one place. For this reason, they have been drawn together in the balance of this chapter. Each subject is then reported in more detail in a chapter of the Report. Because these main messages are condensed summaries, I caution the reader to have a look at the chapters from which they are drawn in order to understand their implications.

Government Contracting Practices (Chapter 3)

- In 1981-82, the Government of Canada contracted for more than $8.8 billion in goods and services.

- Of this total, contracts worth approximately $4.8 billion required the approval of Treasury Board or the Department of Supply and Services. Some 70 per cent ($3.4 billion) of these contracts were let under the provisions of Section 8 of the Government Contracts Regulations, which allows for contracting without tender. We found from our sample that such contracts were adequately challenged during the requirements definition and supplier selection phases to give reasonable assurance that contract funds are controlled effectively within the provisions of Section 8.

- Approximately $4 billion of contract funds was approved within the authority delegated to departments and agencies. Our observations concentrate on approximately $300 million of contract funds approved by departments and agencies. For this $300 million, when contracts were let under the provisions of Section 8, the challenge process was not adequate to give a reasonable level of assurance that: the contract is needed; the department or agency is justified in entering into the contract without tender; a qualified supplier has been selected at a reasonable rate; and there has been adequate planning of contract terms for which the supplier could be held accountable.

- A cause of the lack of control in the challenge process within departments and agencies is the fact that Section 8 of the Government Contracts Regulations is open to abuse. For example, Section 8 specifies that it is not necessary to tender competitively if a contract is less than $30,000. As a result, the $30,000 level is seen as the primary justification for awarding a contract without tendering. When this "requirement" is met, contracts are not subjected to rigorous challenge.

- For both tendered and non-tendered contracts, we found inadequate control over administration of the contracts after they had been awarded. This has resulted in some lack of compliance with government contracting policies.

- Inadequacies in the government contracting process can be improved by: more specific direction from Treasury Board, especially regarding the use of Section 8 by departments; internal audits of departments' contracting practices; and greater support from senior management for contracting staff in departments.

Management of Overtime (Chapter 4)

- During the 1981-82 fiscal year, departments and agencies spent $219 million on overtime. This expenditure is the equivalent of salaries for about 8,700 person-years and represents 3.7 per cent of regular salaries. Time off in lieu of compensation is estimated to have amounted to an additional $25 million or 1,000 person-years.

- Overtime can be the most economical and appropriate means of meeting excess manpower requirements. Our study of seven organizations, accounting for 70 per cent of overtime expenditures, revealed that improvements are needed in overtime management practices.

- In most cases, departments had not developed action plans to meet predictable manpower shortages. As well, they had not assessed their use of overtime and the alternatives to it. The tendency has been to react to circumstances rather than to anticipate them through a comprehensive planning process.

- Because of the lack of measured work standards, performance criteria and established levels of service, use of overtime is often based on subjective decisions that raise questions about the necessity or urgency of working overtime.

- There was a general lack of departmental policies and guidelines governing the management of overtime. This resulted in a lack of guidance for local managers in areas such as allocating responsibility for authorizing and monitoring the use of overtime, considering alternatives, and planning and budgeting for overtime.

- Despite the proliferation of computerized human resource information systems in departments and central agencies, the information available on overtime has not met management needs. In particular, we found that the central human resource information system, ALOSS, was not providing accurate or timely information on overtime.

Performance Review and Employee Appraisal (Chapter 5)

We conducted a government-wide study of performance review and employee appraisal processes in the public service and found that:

- The quality of the systems varies considerably across departments, with several departments having made, or being in the process of making, major efforts to improve their systems.

- The quality and extent of communication between many supervisors and their subordinates on performance-related matters are inadequate.
- Many employees feel that the performance review and employee appraisal process has little or no effect on the way they do their jobs.
- Many managers consider the process a paper exercise and of limited value in making management decisions.
- For the majority of employees, departments are not using appraisal information to assist in making decisions in such areas as staffing, training, development and career planning as stated or implied in departmental policies.
- Most departments do not have systems in place to assess adequately the effectiveness of their performance review and employee appraisal programs; instead, they concentrate largely on completion rates.

Government Initiative for Improved Management Practices and Controls (Chapter 6)

- Twenty-five departments, representing 66 per cent of government expenditures, had endorsed Action Plans as of 31 March 1982. Four departmental Action Plans are in the process of endorsement, and one department is in the survey stage.
- Of the 25 endorsed plans, 3 have had their implementation curtailed by major government reorganizations, and 22 are in various stages of implementation. Three Action Plans have reached a sign-off stage; three are progressing satisfactorily. Significant slippage is reported in nine departments, seven of which are undergoing plan revisions. Six departments have minor slippage, and progress in one department could not be assessed because of a lack of plan milestone dates.
- Generally, we have observed that senior management is increasingly concerned with improving management practices and controls, even in departments where measurable progress has fallen behind. Although it is difficult to measure this kind of progress against tangible milestones, it must be acknowledged as an achievement of IMPAC.
- Important progress has been achieved overall in establishing planning functions at departmental levels and developing strategic plans, and in setting up internal audit and program evaluation functions. However, management information systems development and implementation are lagging in 8 of 22 departments.
- The 25 departments whose plans were reviewed estimated their committed costs of IMPAC at $225 million, involving 3,500 person-years. For nine of these departments, costs have increased from $96 million to $134 million, and person-years increased from 924 to 1,356. Because these costs have not

been compiled in a uniform manner, the accuracy of these figures cannot be assessed.

- The Office of the Comptroller General states that $10.6 million of recurring benefits and $16.5 million of non-recurring benefits have already been realized, and deputy heads in departments and agencies have formally committed themselves to another $122.9 million of recurring, and $15.5 million of non-recurring, potential benefits. To date, with the observed exception of the Unemployment Insurance benefit system of the Canada Employment and Immigration Commission, departments have not set up a process to monitor the achievement of benefits.

- We could find little evidence to indicate that there have been attempts to assess the achievements of departmental IMPAC projects or Plans in relation to Plan objectives. The OCG is scheduled to conduct a formal evaluation of the IMPAC program in 1984.

Canada Employment and Immigration Commission (Chapter 7)

- Studies prepared by the Commission raise questions about the ability of immigrants who are members of the family class to adjust to their new surroundings. This situation could have repercussions for social programs and the Canadian labour market. Yet the Commission has carried out no assessment of its selection process to determine whether it provides any insurance that these immigrants can become successfully established in Canada.

- Although the Immigration Act specifies that immigrants must obtain visas before entering Canada, more than 10 per cent of immigrants apply for visas after they are already in the country. The use of the discretionary power to make exceptions and grant landed immigrant status to persons already in Canada is not sufficiently controlled and monitored by Headquarters.

- There is a lack of control at ports of entry to Canada. Moreover, the Commission has not rationalized its efforts to find and remove from Canada those who contravene the Immigration Act.

- The Adjudication Directorate at National Headquarters provides effective direction to adjudicators in the performance of their duties.

- The Commission's practices for recovering loans fail to take account of the 1978 Immigration Regulations, including the special provisions applying to refugees and immigrants in designated categories, concerning repayment schedules.

- The National Headquarters management system provides little assurance that the Immigration Program is in accordance with the Immigration Act, Regulations and guidelines. National Headquarters thus neglects a significant part of its responsibility to provide functional direction.

Department of Agriculture (Chapter 8)

Corporate

- The Department is in the process of improving its management activities. Some of the new management systems implemented over the last three years are still being refined, and most of our observations refer to these areas.
- Although the elements of a good planning system are in place, strategic plans are not sufficiently detailed or specific enough to provide a sound basis for decision making.
- The objectives of the program components are not expressed in terms that would enable existing management information to be used for ongoing effectiveness monitoring.
- There are significant delays in staffing many scientific and professional positions across the Department, due mainly to a lack of human resource planning and inadequate definition of responsibilities for training and staffing.
- Systems for controlling expenditures against the budget are in place and working well. However, there are areas such as the research program where a need exists for systems that can relate costs to results achieved.

Agri-Food Development

- The Research Branch has not established comprehensive procedures nor has it assigned responsibilities for health and safety in laboratories and for the storage and disposal of toxic and dangerous chemicals and biological substances.
- Little work has been done to assess the effects of the loss of the 25 per cent of research scientists who must retire over the next four years.
- The Department's role in the Record of Performance Programs needs to be re-examined. After 77 years, only 13 per cent of the dairy cattle in Canada are included in the program.
- Levies under the Prairie Farm Assistance Act were terminated in 1972, leaving a balance of $9 million in a Fund. No payments have been made for over eight years, and no definitive action has been taken on the disposition of the Fund.

Agri-Food Regulation and Inspection

- Formal training is not provided to all import/export inspectors, nor have qualifying requirements been established. As a result, there is a potential risk of damage to crops in Canada from importing pests and plant diseases.

- In 1980-81, the National Inspection Service (Meat Hygiene) of the Food Production and Inspection Branch incurred overtime costs in excess of $5 million and recovered only 60 per cent of this amount.

Department of Energy, Mines and Resources-- Minerals and Earth Sciences Program (Chapter 9)

The management of change is the major challenge faced by the Minerals and Earth Sciences Program (MESP). The rapid expansion of the energy program and resource development projects have placed substantial new demands on the Program for earth science information and research studies. MESP has adapted remarkably well to these new requirements by developing new capabilities and modifying its organization and management practices. The Program has not, however, been able to improve certain of its management processes quickly enough to adapt to the rapid and extensive changes it is now facing. Improvements are necessary in areas such as strategic planning, human resource planning, and computer policy in order for MESP to make the best use of its program resources.

- MESP is planning changes that could result in over $1 billion of new expenditures over the next five to seven years. The plans include: a new radar satellite for remote sensing; new programs relating to minerals; and new initiatives in areas such as off-shore resource assessment. Although MESP has made some significant advances in its planning capabilities over the last year, program personnel will be hard put to cope with the new planning requirements of these initiatives.

- MESP's human resource planning is not adequate to meet its requirements for scientific and technical staff. Critical shortages have been experienced in some specialities such as petroleum geology and geophysics. There is every indication that shortages will continue in key areas across the Program and that they will adversely affect the ability of MESP to achieve planned initiatives such as off-shore resource assessments.

- The Surveys and Mapping Branch is a world leader in applying the advanced technologies of the computer and satellite age to increase the efficiency of map preparation. However, it has had to operate in the era of the horse and buggy when it comes to printing maps. Decisions on acquiring printing presses that would significantly increase the efficiency of map printing have been outstanding for several years. The Branch estimates that if it had replaced one of its small printing presses in 1975 for a sum of $150,000, it could have saved over $900,000 in labour costs alone over a five-year period.

- MESP does not have adequate security procedures to protect valuable technical data and information in the Surveys and Mapping Branch. The Branch stores "without duplicate" $7 million worth of aerial photographs and $1 million of digital data on topographical surveys. In the next ten years, the replacement value of digital information will increase to $70 million.

- MESP does not have sufficient plans to co-ordinate the use of computers across the program and does not conduct adequate feasibility studies to ensure due regard for economy. MESP's $12 million computer budget is growing rapidly at 17 per cent a year, and there are now over 100 mini and micro-computers in the Department. In spite of this, the Program does not have sufficient plans and guidelines for computer acquisitions and does not always conduct formal feasibility studies to ensure due regard to economy in making acquisitions. Of the seven recent acquisitions we audited, only two had formal feasibility studies.

- The Department has not updated its IMPAC plan to meet management needs. Although the implementation of the original Plan has resulted in some improvements since 1979, it has not kept pace with the changing needs of the Program. Management has not paid sufficient attention to monitoring and evaluating some IMPAC projects. For example, MESP spent over $225,000 in a three-year period for developing a management accounting and reporting system. This system is still in the pilot project stage, and it is not clear whether it can or should be implemented.

Department of Industry, Trade and Commerce - Industry Development Activities (Chapter 10)

- Our review of Industry Development activities, such as the Defence Industry Productivity Program, the Enterprise Development Program and others, revealed that the objectives and strategies in support of some of the programs were either not adequately documented, not adequately communicated, or not clear enough to permit accountability.

- There are no clear criteria or guidelines to assist the Enterprise Development Board in making decisions that may commit the Crown to more than $1 billion in loan insurance. In addition, we found that the responsibility, roles and accountability of the Board have not been defined in operational terms, beyond the Enterprise Development Program regulations.

- In all programs where discretionary decisions are made about whether to provide assistance, we found cases where decision criteria are not fully documented or do not provide for standard and consistent risk analysis.

- We could find no system for setting and applying priorities. Because industry development programs are competing for assistance funds, we expected to find documented criteria that would enable the Department to set priorities within these programs so that the benefit of assistance funds could be maximized.

- The Department's assistance activities provided direct payments, loan guarantees, loan insurance and investments totalling $2.275 billion in 1981-82. In many cases, we found that the program or project monitoring function is seriously inadequate to protect taxpayers' interests.

- Information systems and procedures in the Department do not provide adequate support for some Industry Development activities. In the Enterprise Development Program, we found a multiplicity of information systems that duplicated each other and in which the information was frequently incomplete or out of date. The Machinery Program, under which decisions are made to remit duties on imported machinery that is not produced in Canada, depends on the adequacy of its information on the availability of machinery in Canada. During our audit, the Department was unable to provide us with fully documented policies and procedures for keeping this information up to date.

Department of National Defence (Chapter 11)

- The discrepancy between DND's commitments and its ability to meet those commitments has been a topic of much discussion during this period of heightened world tension. The Department attempts to achieve some degree of capability in all assigned tasks, but because of tight funding ceilings cannot achieve satisfactory capability in some major activities. The Department, in consultation with the appropriate Cabinet committee, needs to determine the most effective ways of using the Policy and Expenditure Management System (PEMS) to assist in the interchange of information required to reconcile these differences.

- The Department has a state-of-the-art system for clearly defining major equipment requirements identifying and analysing options, analysing costs and availability, and defining acquisition projects to facilitate effective execution, monitoring and control of the projects.

- Although the systems for military manpower planning and training of individuals function reasonably well, the Department has identified scope for improvement in its military personnel policies, the organization of the military personnel management function and the use of cost-benefit analysis and evaluation within the human resource management function, and is planning further work in these areas.

- Large complex computer systems support the operations of the Canadian Forces and the administration of the Department. The systems supporting logistics and supply, command and control, personnel and finance no longer satisfy user needs, and a major effort is needed in the areas of policy, planning and staffing in order to implement the required new generation of systems and technology.

Department of National Health and Welfare (Chapter 12)

- In the Health Protection Branch, there are limited management information systems to assist the Branch in reviewing and deciding upon the level of coverage against health hazards provided by its scientific directorates.

- Problems with air handling systems, together with inadequate safety practices, in several of the Health Protection Branch laboratory facilities are creating potentially hazardous work environments. The Department is giving highest priority to taking corrective action and has recently obtained Treasury Board approval in principle for an extensive laboratory building and renovation program.

- Standards for health care services that should be provided to Indians and Inuit by the Medical Services Branch have not been completely defined. Moreover, there is limited co-ordination of activities with the Department of Indian Affairs and Northern Development for the delivery of services for Indian and Inuit programs. Inaccurate cost information and the relatively low priority given to recoveries of medical services provided by the Branch and insured by provincial plans have resulted in loss of revenues to the federal government for several years; initiatives are now under way by the Branch to address these deficiencies.

- The Health Services and Promotion Branch is responsible for administering payments of contributions to the provinces for health care services. These payments totalled $4.3 billion in 1981-82. Monitoring of compliance by the provinces with the conditions under which payments are made has been limited; however, initiatives by the federal government to improve these monitoring activities are under way.

- Satisfactory procedures to control the payment of funds to the provinces under the Canada Assistance Plan are being established, and major steps are being taken by the Social Service Programs Branch to document fully responsibilities, policies and procedures for the program. More extensive use of available management information on program operations in the provinces, however, would enhance the efficiency of the administration of the Plan.

- Our audit of the Family Allowances, Old Age Security and Canada Pension Plan programs did not reveal any significant errors in payments to recipients. However, the present practice of the Department of excluding refunds of contributions in the determination of Canada Pension Plan benefit entitlements has resulted in overpayments to recipients since the early 1970s; an estimated $7 million was overpaid in 1981-82. Although this represents less than one-third of one per cent of benefit payments for that year, the amount has been increasing each year.

- Performance measurement systems used to monitor productivity of the large staff employed in the administration of the Income Security programs do not use up-to-date work standards or fully representative output measures. As a result, they do not produce adequate information on the amount of work done during the period.

Department of Transport -- Surface Transportation Program (Chapter 13)

- The Surface Transportation Program involves annual expenditures of more than $900 million. The majority of these expenditures are made under contract to Schedule D Crown corporations to provide key transportation services. The independence provided to these corporations has hampered the ability of the Department to satisfy itself that these services are provided with due regard to economy and efficiency.

- VIA Rail: The railway passenger program is in serious financial difficulty. Payments to VIA have consistently exceeded all forecasts presented to ministers and Parliament since VIA was set up to operate passenger rail services in 1978. They currently average $50 for each paying passenger and, in total, cost the taxpayer $540 million in 1981-82.

  The Department does not have sufficient information on how economically or efficiently VIA operates, what its future capital and operating requirements will be, or if or when railway passenger services will become viable. Contributing causes are inadequate initial planning, lack of information on market potential, slow and expensive regulatory decisions, complex organizational arrangements and difficulty in obtaining from VIA reliable data on the costs and revenues associated with the services it provides.

  Although the primary responsibility for ensuring successful implementation of the railway passenger program was given to the Department, it has not been in a position to control the process of decision and change required to meet its objectives and related financial targets. Major changes have been made in the program without adequate consideration of the consequences; for example, how making VIA a separate Schedule D Crown corporation would affect the Department's ability to control the program.

- CN Marine: This company has been provided with some $535 million since 1979 to meet its ferry deficits without adequate assurance that the company operates in an economical and efficient manner. Auditors appointed by the Minister of Transport were denied access to certain operational information that was necessary to complete audits of contracts with CN Marine. Although CN Marine is subject to departmental contract audit, payments by the Department are based on unaudited budget information submitted by the company. Further, in the absence of performance standards for major cost components or a comprehensive audit of the company, the Department does not know if it has been subsidizing only the costs of "properly managed services" as directed by Cabinet.

  We were unable to satisfy ourselves on the propriety of a transaction involving $25 million in up-front payments to CN Marine for the acquisition of a new ferry. We do not know what benefits to the Crown were anticipated when arrangements to advance these funds were approved, why CN Marine deposited these funds in a special bank account in the name of the shipbuilder, in trust for itself, or what consideration was received by CN Marine for $163,000 paid to the shipbuilder out of this trust account. The total cost of the new ferry is in dispute, and its exact delivery date is not known.

- The prairie branch line rehabilitation program was approved by Cabinet in 1977 without a resolution of the questions of whether the railways would agree to timely maintenance and how the program would affect branch line subsidies that the Canadian Transport Commission was already paying the railways. It was also approved without an inspection of the branch lines to determine their condition before agreeing to fund their rehabilitation.

- The Department states that the Surface Transportation Program is developed and implemented in a complex institutional setting with politically sensitive negotiations that inhibit effective long-term planning and rational decision-making. The Department comments that this Report takes much less cognizance than is warranted of decisions by the Minister and Cabinet and of the general environment in which decisions are made.

Foreign Operations (Chapter 14)

Interdepartmental Management of Foreign Operations

- The interdepartmental mechanism set up by the Government to advise it on the conduct of foreign operations has been largely ineffective in rationalizing resources abroad with Canada's external interests. As a result, the Government has no assurance that the human and financial resources at posts abroad are appropriate to Canada's needs.

Department of External Affairs

- The Department's resource allocation process is done on an arbitrary and incremental basis. Managers are not provided with a statement of objectives which are results-oriented and linked to resources provided. Plans produced to meet central agency requirements are not used as a basis for monitoring and evaluating the efficiency and effectiveness of programs.

- Human resource planning in External Affairs is inadequate. Needs are not based on operational plans, and there is no systematic determination of human resource availability. Action plans only address obvious immediate needs and do not address longer-term human resource requirements.

- With the exception of pre-posting briefings, language training and training for some special skills, there is no systematic assessment of individual and group training needs linked to organizational needs.

- The Department needs to improve its planning for the acquisition and development of property abroad, in particular its approach to identifying accommodation needs, setting priorities and preparing feasibility studies. In certain instances, excessive involvement by interested parties has compromised economical and efficient delivery of the program.

- The Telecommunications Division of External Affairs provides an economical and efficient service.

- Although improvements have been made, not all the financial recommendations in our 1975 Financial Management and Control Study have been implemented. The central financial function needs to revise its systems to provide more complete financial information to program managers. Separate, manual financial records still exist in three bureaux.

- Most of the internal auditors have been reassigned to the Inspection Service, and, as a result, only one headquarters audit has been completed. Senior management, therefore, is still not being provided with an independent appraisal of the economy and efficiency of departmental operations.

- The audit and evaluation mandate assigned to the Inspection Service overlaps with the mandate of departmental internal audit. Although offering useful suggestions for improvement, Inspection Service reports on post operations consist primarily of opinions and observations which are not based on established criteria or supported by evidence on file. The Service lacks the professional capability and methodology to discharge properly its audit and evaluation mandate.

International Trade Development

- Because the objectives, roles and responsibilities within the Trade Development program have not been adequately defined, it is difficult to pinpoint accountability for planning and controlling program activities and thus for achieving objectives.

- At the direction of Cabinet, program managers have undertaken a priority marketing exercise to identify major Canadian export opportunities. However, marketing strategies were prepared without sufficient consultation with the Canadian export community. The priority marketing strategy cannot demonstrate any direct impact on trade.

Immigration

- There are significant weaknesses in the processes used by management to ensure that annual immigration levels are achieved. For example, the method of translating annual immigration levels into operational targets to guide posts on their immigration processing activities is not adequate or complete.

- In 1979 and 1980, the Commission did not clearly and completely report to Parliament on planned and actual immigration intake.

- There is inadequate monitoring and control of some key aspects of immigration operations. Examples include inadequate physical and procedural control over visas at posts, and a 25 per cent increase in discretionary decisions at posts between 1979 and 1981. These decisions were not systematically analysed by headquarters.

- Immigration services abroad are provided without charge and on request to specific individuals. The Commission needs to undertake a study of the feasibility and desirability of charging users for services provided, a practice that has been adopted by the United States and Australia.
- To ensure proper functional supervision and review of the Immigration program abroad, it is essential that co-operation and consultation between the Canada Employment and Immigration Commission and the Department of External Affairs be increased and sustained.
- Posts do not receive current and reliable information on Canadian occupational needs and demands; moreover, existing systems do not provide a timely indication that these labour needs have been filled. Thus, there is the possibility that immigration will contribute to labour market surpluses and unemployment.
- The need to improve post processing efficiency has been recognized and is currently under study by an interdepartmental committee.
- The management information system used to monitor immigration processing activities abroad is inadequate. Managers are not provided with timely information.

ACCOUNTABILITY OF CROWN-OWNED CORPORATIONS

ACCOUNTABILITY OF CROWN-OWNED CORPORATIONS

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2

ACCOUNTABILITY OF CROWN-OWNED CORPORATIONS

Introduction

Purpose of Review

2.1 In 1976, following a government-wide study of financial management and control practices in certain Crown-owned corporations, we concluded that:

> In the majority of Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually nonexistent.

This, together with the results of the prior year's study of similar practices in departments, led the Auditor General to express the deep concern that Parliament - indeed the Government - had lost, or was close to losing, effective control of the public purse.

2.2 Since that study, major reviews of Crown-owned corporations have been carried out by the Public Accounts Committee, the Government and a Royal Commission. These reviews all identified the same problems as our study and, like it, called for prompt action to provide an adequate legislative framework for the direction, control and accountability of Crown-owned corporations.

2.3 Six years have passed since the Office pointed out the existence of major weaknesses in the control and accountability of Crown-owned corporations and gave Parliament a commitment to draw to its attention any progress being made. Although several pieces of draft legislation have been prepared, amendments to the Financial Administration Act have been introduced in Parliament, and some other initiatives have been taken, the legislative framework urgently required is still not in place. In the absence of conclusive action to resolve issues of control and accountability affecting Crown-owned corporations, we believe it is time to review what progress has been achieved since 1976 and to outline our views on how accountability can be improved.

Scope of Review

2.4 Our review focuses on those wholly-owned Crown corporations that are not subject to the same accountability regime as government departments. It deals primarily with accountability to Parliament and the Government, with emphasis on formal structures and mechanisms. We did not review the roles and practices of either internal management or boards of directors.

2.5 Several weaknesses that have come to the attention of the Office in the normal course of conducting audits of Crown-owned corporations and their related departments and through other enquiries, have been included in this chapter to illustrate the problems that may occur and to emphasize the need for prompt corrective action.

SYNOPSIS

2.6 Increasingly, the corporate form is being chosen by Government to achieve public policy objectives. There is a wide variety in the types of Crown-owned corporations and in the accountability mechanisms applied. Although the activities of these corporations account for a significant proportion of total government operations, they are far less visible publicly than those carried out by departments. With assets of approximately $67 billion, liabilities of over $57 billion, annual expenditures of over $30 billion, and more employees than government departments, Crown-owned corporations require an improved framework for accountability to both Parliament and Government. Since the 1951 Financial Administration Act (FAA) came into force, these Crown-owned corporations have grown in significance (examples are VIA Rail, CN Marine, Petro-Canada and Canada Post). However, the accountability framework has not evolved at the same rate.

2.7 The 1976 and 1979 Reports of the Auditor General, the 1979 Report of the Royal Commission on Financial Management and Accountability (the Lambert Commission), and various reports of the Standing Committee on Public Accounts have all pointed out the need for an improved parliamentary control and accountability framework. This need was acknowledged by the Government in its proposals in the 1977 paper "Crown Corporations: Direction, Control, Accountability", and in two legislative initiatives, Bill C-27 in 1979, and Bill C-123 (Part V) in 1982. Over the past six years, however, actual progress toward better accountability has been limited, particularly as far as Parliament is concerned.

2.8 Policy mandates and objectives are often vaguely defined when a Crown-owned corporation is established. This gives rise to serious concerns about whether such corporations are able to stay within or can be held within their mandates so that the public objectives intended by Parliament and the Government can be achieved. Progress in fulfilling their mandates, or consideration of the appropriateness of continuing with a previously approved mandate, are rarely evaluated by Parliament. This may be because mandated objectives of a Crown-owned corporation are seldom translated by the Government into specific priorities and goals for that corporation. Adequate information to judge whether most Crown-owned corporations are achieving the objectives set for them is sometimes not received by the Government, and the information given to Parliament is totally unsatisfactory.

2.9 The Office remains seriously concerned about how well the Government monitors and controls Crown-owned corporations. For example, the classification system provided for under the Financial Administration Act classified government corporations according to degrees of control required. It has not been updated since 1951. Required reclassifications have not been made, perhaps because of the lack of periodic reviews to indicate the need for greater or less control or because there are no stated criteria for classification. A number of Crown-owned corporations are not classified under the FAA. The 1977

Government paper on Crown corporations indicated that the Government had begun a study of mixed enterprises and would be making proposals as soon as possible regarding accountability of these entities to Government and Parliament. These proposals have not been brought before Parliament.

2.10 Government monitoring and control of Crown-owned corporations are hampered by the potential for weak co-ordination among the responsible minister's department and such central agencies as the Privy Council Office, the Treasury Board Secretariat and the Department of Finance. The Government has stated that the proposed amendments to the Financial Administration Act in Bill C-123 will clarify and strengthen their respective responsibilities.

2.11 Those corporations proclaimed as agents of Her Majesty have borrowings and other liabilities relating to parties outside the Government of about $13 billion as of 31 March 1982. These liabilities of the Government of Canada are not included in the accounts of Canada because they are intended to be, and in practice are, repaid directly by the corporations. These liabilities are reported in the financial statements of Canada by way of a note. Although the assets of the corporations concerned exceed these liabilities, the fact that the liabilities are not included in the Government of Canada Statement of Assets and Liabilities may mislead readers about the extent of the Government of Canada's total debt. The size of the borrowings by Crown-owned corporations gives rise to concern over the impact that these borrowings may have on Canada's financial markets.

2.12 Legislative audits of wholly-owned corporations are intended to provide Parliament with assurance that financial statements present fairly the financial position of the corporation, that corporate activities have been within the specified statutory mandates and that funds have been expended for the purposes intended. They are not intended to, nor do they, provide assurance that value for money has been received for the funds spent. The Public Accounts Committee has recognized the need for the increased assurance that would result from a broader scope of audit. Parliament and the taxpayers of Canada, we believe, want to have independent reviews conducted to provide assurance that, when public funds are spent, value for money is being received. Such reviews, conducted by independent third parties, help to maintain the needed degree of autonomy of Crown-owned corporations. Broad-scope or comprehensive audits have been conducted in a number of Crown-owned corporations. However, such assurance cannot be guaranteed for all wholly-owned Crown corporations until legislative provisions are introduced to require it.

2.13 Because required improvements have not been made in the accountability framework for Crown-owned corporations, we are greatly concerned, even afraid, that:

Parliament is becoming further isolated from an increasing portion of government activities. The growing practice of using Crown-owned corporations to conduct a widening range of government activities has so strained the capability of the existing accountability framework that Parliament may not be able to exercise its fundamental responsibility for overseeing receipts and expenditures of public funds.

Recommendations

2.14 Recommendations for improving the accountability of Crown-owned corporations are offered both in Chapter 5 of the 1976 annual Report and in Chapter 8 of the 1979 annual Report. Many more are listed in the Final Report of the Lambert Commission and in numerous reports tabled by the Standing Committee on Public Accounts. Given the existence of this body of material that can be referred to and drawn upon, the following general recommendations are those which we believe require prompt action.

2.15 **Broad legislation for the accountability of Crown-owned corporations should be developed that will include provisions relating to each of the elements of authorizing and mandate, financing, directing, controlling and reporting. Such legislation should provide that these corporations be subject to comprehensive audits.**

2.16 Parliament should give attention to issues surrounding control and accountability of those mixed enterprises and other entities and associates in which the Crown is a shareholder.

Background

General

2.17 The Government has several types of public policy instruments that can be used to pursue broad economic, social, cultural, or other national objectives. Indirect instruments, such as tax policy and government regulations, may be used to achieve objectives by influencing the programs and activities of other public and private sector organizations. Alternatively, the Government may decide to pursue its objectives more directly through the programs and activities of two general forms of organization. In this case, objectives may be achieved by operations of departments and agencies or through Crown-owned or controlled corporations.

2.18 The choice of the corporate form has implications for the Government and Parliament in terms of the direction, control and accountability of the organization.

2.19 In Canada, as in many other countries, the use of corporations as a means of achieving public policy objectives began in the 19th century with government ownership of canals, harbours and railway enterprises. During the early part of the 20th century, government ownership in transportation expanded and other enterprises in broadcasting and central banking were added. The Second World War spurred an increased involvement of Crown-owned corporations in such industrial activities as procurement, construction, production, manufacturing and distribution. Recent years have witnessed further expansion into the areas of energy, telecommunications, and export and agricultural financing, as well as into various types of marketing boards, research and granting councils, advisory and regulatory boards. Recently, postal services have been converted from the departmental to the corporate form of organization.

2.20 The legislative basis for the accountability of Crown corporations is found in Part VIII of the Financial Administration Act, the special acts establishing some of the corporations, and in companies legislation such as the Canada Business Corporations Act. On behalf of the Crown, ministers exercise the powers of direction and control over Crown-owned corporations established by statute, or act as trustee shareholders if the corporations are incorporated under companies legislation.

2.21 The main provisions of the FAA for controlling the operations of most Crown-owned corporations focus on capital and operating budgets. All corporate appropriations and loans from the Consolidated Revenue Fund (CRF), as well as borrowings from capital markets by agent corporations, must be approved by Parliament, either in a general way through the special act establishing the corporation, or on a case-by-case basis through the Estimates.

2.22 At present, the capital and operating budgets, and corporate plans where they exist, are the most important documents whereby the Government may formally control the implementation of public policy objectives and reach agreement with the corporations on long and short-term objectives and financing strategies.

Numbers and Types of Corporations

2.23 In 1981, the Office of the Comptroller General identified 306 corporations in which the Government of Canada was whole or part owner (see Exhibit 2.1). Of this total, 57 parent Crown corporations were listed in the schedules to the Financial Administration Act. Twenty-two additional parent corporations are not listed in the FAA. Types, descriptions and examples of these corporations are shown in Exhibit 2.2.

Exhibit 2.1

Number of Corporations in which the Crown is Whole or Part Owner*

Type	Parent	Subsidiaries (More than 50% held)	Associates (50% or less held)	Total
Crown corporations				
Departmental	14		1	15
Agency	20	2		22
Proprietary	23	114	58	195
Other government corporations	22	7		29
Sub-total of agency, proprietary and other government corporations	65	123	58	246
Total	79	123	59	261
Mixed enterprise	22	not recorded	not recorded	22
Other entities and associates	27			27
Sub-total mixed, other entities and associates	49			49
				310
Less: Multiple listings				4
TOTAL				306

*Source: Listing, as of 30 November 1981, prepared by the Office of the Comptroller General of Canada.

Exhibit 2.2

Types, Descriptions and Examples of Corporations (Note)

Type	Description	Examples
Crown corporations	One that is ultimately accountable to Parliament, through a Minister of the Crown, for the conduct of its affairs.	
Departmental (Schedule B)	Corporations responsible for administrative, supervisory or regulatory services of a governmental nature.	The 14 corporations in this category include the Agricultural Stabilization Board, Atomic Energy Control Board, Canada Employment and Immigration Commission and National Research Council.
Agency (Schedule C)	Corporations responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities of the Government of Canada. Such corporations are always "agents" of Her Majesty.	The 20 parent corporations in this category include Canada Post Corporation, Canadian Commercial Corporation, Canadian Dairy Commission, National Harbours Board and the Royal Canadian Mint.
Proprietary (Schedule D)	Those corporations responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods, and the supplying of services to the public; and is ordinarily required to conduct its operations without appropriations.	The 23 corporations in this category include Air Canada, Canada Mortgage and Housing Corporation, Canadian Broadcasting Corporation, Canadian National Railway Company, Cape Breton Development Corporation (Devco), Export Development Corporation, Petro-Canada, Teleglobe Canada and VIA Rail Canada Inc. These 23 proprietary Crown corporations were listed as having 114 subsidiaries and 58 associated corporations.
Other government corporations	Corporations owned or controlled solely by the Government of Canada that have not been included in the schedules to the Financial Administration Act.	The 22 parent corporations in this category include the Bank of Canada, Canadair Limited, The Canadian Wheat Board and The deHavilland Aircraft of Canada, Limited.
Mixed enterprise corporations	Those corporations with share capital owned jointly with other government and/or other organizations to further common objectives.	The 22 parent corporations in this category include the Canada Development Corporation, Lower Churchill Development Corporation, Telesat Canada, and international organizations such as the African Development Fund and International Development Association.
Other entities and associates	Bodies corporate without share capital, not operating as a branch of a Government of Canada department, but for which the Government of Canada, directly or through a Crown corporation, has a right according to statute, articles of incorporation, letters patent or by-law to appoint one or more members of the board of directors or similar governing board.	The 27 corporations in this category include the Canada Grains Council, Fashion Canada, Hockey Canada Inc. and the International Joint Commission.

Note: Descriptions for Crown corporations are from the Financial Administration Act, while other descriptions are from the Office of the Comptroller General of Canada listing of corporations as at 30 November 1981.

Exhibit 2.3

Indicators of Size (Note 1)

(31 March 1982)

Type	Employees	Assets	Liabilities	Revenues	Expenses
		(millions of dollars)			
Crown corporations					
Departmental	30,619	$ 15	$ 6	$ 5,959	$ 8,964
Agency (Note 2)	82,440	3,306	2,685	3,098	3,821
Proprietary	134,724	38,769	30,541	12,703	13,105
Other government corporations	15,442	24,676	23,775	6,776	4,499
Total of agency, proprietary and government corporations	232,606	66,751	57,001	22,577	21,425
TOTAL	263,225	$ 66,766	$ 57,007	$ 28,536	$ 30,389
Mixed enterprise		$ 7,468	$ 6,075	$ 3,284	$ 3,190
Other entities and associates		34	12	69	73
Total		$ 7,502	$ 6,087	$ 3,353	$ 3,263

Note:

1. Excluded from the totals for mixed enterprises are the amounts for seven international organizations, such as the International Bank for Reconstruction and Development. Also excluded are 11 non-operating entities and 12 for which information was not readily available. Therefore, the amounts shown relate to 98 entities out of the total of 128 shown in Exhibit 2.1, including subsidiaries where they are consolidated in a corporation's annual report.

2. Totals for agency corporations exclude amounts for the assets and liabilities of the Canada Post Corporation which became a Crown corporation on 16 October 1981 because the valuation of assets transferred from the Government to the Corporation has not been completed. Postal revenues of $815 million and expenditures of $1.1 billion for the period from incorporation to 31 March 1982 have been included. Also included are the 69,457 employees of the Corporation at 31 March 1982.

Size and Impact

2.24 The impact of those corporations in which the Government is whole or part owner is substantial. Indications of their size in 1982 are given in Exhibit 2.3. The information presented slightly underestimates the significance of Crown-owned corporations in the Canadian economy, because some data on subsidiaries and associated companies were not available and some subsidiary corporations were not consolidated.

2.25 In 1982, the Crown-owned corporations, including departmental corporations, employed over 263,000 Canadians, had recorded assets of about $67 billion and expenditures of more than $30 billion (see Exhibit 2.3). The liabilities of the corporations were over $57 billion. Even excluding the amounts for departmental corporations, which are controlled as departments and reported on in Canada's summary financial statements, the amounts for the remaining wholly-owned corporations are substantial.

2.26 Government departments, in comparison, employed 221,000 public servants, excluding 84,000 in the Armed Forces and 18,000 RCMP, and spent over $75 billion in 1982. The Crown-owned corporations, excluding departmental corporations, employed more people than departments and their expenditures amounted to about 28 per cent of departmental budgetary expenditures. In some areas, such as agriculture, communications, energy, industrial development and transportation, the activities undertaken by Crown-owned and solely controlled corporations are of comparable or greater significance than those of responsible departments.

2.27 Crown-owned corporations span an extremely wide range of size, from inactive entities such as the Municipal Development and Loan Board, and Uranium Canada Limited, to some of the largest financial institutions in the country, such as the Bank of Canada, Canada Mortgage and Housing Corporation, Export Development Corporation, Farm Credit Corporation, and the Federal Business Development Bank, and non-financial entities like Canadian National Railways, Petro-Canada, Air Canada and the Canada Post Corporation.

2.28 Many of the Crown-owned corporations, large and small, have a monopolistic or significant position in a segment of the economy. Monopolistic examples include the Bank of Canada, and the Canadian Wheat Board, the Canada Post Corporation, for letters. Canadian National Railways, Air Canada, Teleglobe Canada, and the Canadian Broadcasting Corporation are among the Crown-owned corporations with dominant or significant positions in a given segment of the economy.

2.29 Although the departmental form of government organization is the traditional and most important one, it is clear that Crown-owned corporations are also an important vehicle for achieving public policy objectives.

What Progress Has Been Made?

Chronology

2.30 During the last six years, there have been a number of major reviews of the existing framework for accountability of Crown-owned corporations and several important initiatives taken with the aim of improving that framework. In order to judge whether progress has been achieved, the major events are briefly reviewed and analysed here.

2.31 **1976 Report of the Auditor General.** In 1975-76, the Office examined the financial practices of Crown corporations audited by the Auditor General. We found that the financial management and control practices of Crown corporations did not satisfy the joint needs of Parliament, the Government and corporate management to control the spending of public funds. For example, the Government did not have a list of all the corporations it owned or had significant equity in. To remedy the situation, the Auditor General proposed improvements in the financial management and control of Crown corporations and the accountability of these corporations to Parliament and to the Government.

2.32 **1977 Government of Canada proposals.** A 1977 report by the Privy Council Office dealt with the direction, control and accountability of Crown corporations. The Government outlined a series of reforms designed to emphasize the role of Crown corporations as a form of government organization for carrying out public policy objectives, while at the same time preserving the requisite degree of autonomy required by management to carry out its functions. Because the majority of reforms required legislative authority, draft legislative proposals were annexed to the study.

2.33 **Reports of the Public Accounts Committee.** The Standing Committee on Public Accounts has issued a number of reports dealing both with specific Crown corporations and with the accountability of Crown corporations in general. Three of the most important are the 11 April 1978 Second Report, the "Crown Corporations Report", the 20 February 1981 Fourth Report on "Control and Accountability of Crown Corporations" and the 20 May 1982 Fifteenth Report that addressed the financial statements of Eldorado Nuclear Limited. The Committee stated that all public funds demand public accountability, regardless of the form of organization through which the funds are administered. Its recommendations related to the creation, classification, financing, financial management practices, reporting, central agency responsibilities for, and auditing of Crown corporations. With regard to auditing, the Fourth Report recommended that the Government introduce legislation which would authorize the Auditor General to put into effect a program of comprehensive auditing in wholly-owned Crown corporations.

2.34 **1979 Report of the Lambert Commission.** The Lambert Commission conducted a broad inquiry into the best means of providing effective financial management in the federal administration, including departments and Crown agencies. The Commission concluded that the existing accountability framework was not sufficiently comprehensive to embrace the variants of Crown agencies. It believed that the answer to much of the problem lay in the proper classification of organizations. It argued that, without clear categories, both Parliament and the Government would flounder in trying to fulfil their responsibilities for ensuring the accountability of Crown agencies as instruments of public purpose. It recommended that the schedules to the FAA be revised and, to ensure accountability, that a regime based on mandate, direction, control, and evaluation and reporting be developed for specific categories of Crown agencies.

2.35 **1979 Privy Council Office letter.** On 7 May 1979, the Secretary to the Cabinet and Clerk of the Privy Council wrote to the presidents of Crown corporations to inform them of a Cabinet directive imposing interim controls over the operations of Crown corporations prior to the development of a broad policy. These interim controls dealt with creating and disposing of subsidiary corporations, approving capital budgets, financing from private sources, and approving corporate appointments of independent auditors. A committee of senior deputy ministers was to be convened under the chairmanship of the Secretary to the Cabinet and Clerk of the Privy Council to develop Crown corporation policy and oversee the effective implementation of the Cabinet directive.

2.36 **1979 Report of the Auditor General.** Chapter 8 of our 1979 Report reviewed developments since the 1976 Report, compared the major findings of the Office with those of the Lambert Commission and set out matters that the Office believed parliamentarians should consider in reviewing draft legislation on Crown corporations. The Report also outlined a general framework for accountability.

2.37 **1979 draft omnibus legislation on Crown corporations (Bill C-27).** On 26 November 1979, the Government tabled Bill C-27, an omnibus Crown Corporations Act. The legislation applied to all wholly-owned corporations and to their wholly-owned subsidiaries. The Bill, which addressed many of the deficiencies in control and accountability identified by the Auditor General, the Lambert Commission and other studies, died on the order paper.

2.38 **Crown Corporations Division of the Treasury Board Secretariat.** The Crown Corporations Division of the Treasury Board Secretariat was established in 1979. It focuses on wholly-owned corporations, except departmental corporations, and advises the President and members of the Treasury Board on corporate submissions related to the Estimates, operating and capital budgets, and other areas requiring Treasury Board approval or recommendation to the Governor in Council. In addition, the Division may provide advice to the President and the members of the Treasury Board on government proposals involving the direct or indirect commitment of public funds to private sector companies as well as on Cabinet memoranda dealing with various corporate issues.

2.39 **Federal Cultural Policy Review Committee.** In August 1980, the Secretary of State established the Federal Cultural Policy Review Committee. The Committee's terms of reference include an examination of Crown-owned corporations which have responsibilities in the area of cultural affairs. The Committee was expected to publish its report in November of this year.

2.40 **The 1982 Government Organization Bill (Bill C-123).** On 30 June 1982, the President of the Privy Council tabled the Government Organization Bill, Part V of which was concerned with Crown corporations and other "wholly-owned government corporations". The legislation took the form of amendments to Part VIII of the FAA and would apply to the corporations now listed in Schedules C and D of the FAA and to an unspecified additional number of wholly-owned corporations. The Government re-emphasized the need to maintain a careful balance between government control and the corporations' requirements to operate with a degree of independence appropriate to their corporate form and sound business behaviour and practices. Besides the legislation, the Government provided for the creation of specialized Crown corporation units reporting to ministers responsible for Crown corporations.

2.41 **1982 Prime Minister's letter.** On 19 July 1982, the Prime Minister wrote to his Cabinet colleagues responsible for Crown-owned corporations to elaborate on the provisions of Bill C-123. He stated that the essence of the Government's policy was that the federal government, as the sole owner of wholly-owned corporations, has all the rights of a sole shareholder under the Canada Business Corporations Act and will exercise these rights through the appropriate minister, the Treasury Board and the Minister of Finance. The letter also sought to clarify the responsibilities of responsible ministers, Cabinet committees, the Minister of Finance, and the Treasury Board with respect to the proposed legislation. In addition to clarifying ministerial responsibilities, the Prime Minister indicated that the new framework and administrative arrangement may result in a reduction in burden for most corporations and a significant speeding up of the various approval processes while strengthening the ability of the Government to provide direction to Crown-owned corporations and to hold them accountable.

Analysis of Initiatives

2.42 **Administrative direction.** In earlier Reports, we expressed concern over the extent of direction being given by the Government, the uncertainty of numbers of Crown-owned corporations that existed, and the lack of a suitable accountability framework for those entities in which the Government had less than full ownership.

2.43 Government directives. During the six-year period under review, the Government has issued a number of circulars for the purpose of improving the direction, control and accountability of Crown-owned corporations:

- 30 September 1976 - Revised Procedures for Approval of Crown Corporation Capital Budgets (Circular No. 1976-38). This circular announced procedures for the approval of capital budgets and contains general descriptions of expected content.

- 7 February 1977 - Commercial Practices in International Trade (Circular No. 1977-6). This circular described the Government's policy regarding the commercial practices of Crown corporations engaged in international trade.

- 30 June 1980 - Policy on the Contingent Liabilities of the Government of Canada (Circular No. 1980-28). This circular described the Government's policy on contingent liabilities and on the financial position of, and on the issuance of shares by, agent Crown corporations.

- 30 September 1980 - Guidelines for the Financing of Crown Corporations (Circular No. 1980-46). This circular outlined classification criteria for dealing with financing transactions between the Government of Canada and its Crown-owned corporations.

- 30 September 1980 - Valuation of Recorded Assets (Circular No. 1980-47). This circular outlined the policy and the methods to be used in establishing reserves against Government of Canada recorded assets (including investments in Crown corporations).

2.44 These circulars represent progress in improving the functioning of the accountability framework for Crown-owned corporations. It should be noted, however, that only the two circulars concerning Capital Budgets and Commercial Practices deal specifically with corporate accountability. The others deal more with proper financial accounting for transactions and with activities of Crown-owned corporations that affect the Public Accounts.

2.45 Currently, a circular is pending that deals with the transfer of physical assets to Crown-owned corporations and, also, a draft proposal has been prepared to rationalize the financial structures of Crown-owned corporations. In our view, although these circulars are useful, this issue-by-issue approach is not an adequate substitute for an overall legislative framework.

2.46 Inventory of corporations. The first effort to list all Crown-owned and controlled corporations, and similar bodies wholly or partially owned or controlled by the Government of Canada, was distributed in May 1977. It was issued by the Treasury Board Secretariat in response to concerns raised over the lack of knowledge of the numbers in existence. This list identified 366 entities in which the Government of Canada had invested. The most current list is dated November 1981 and identified 306 entities (see Exhibit 2.1). The difference between the two lists is mainly due to the deletion in the 1981 list of a number of mixed and associated corporations. The next list is due in November 1982. In our view, the monitoring and public reporting of such investments should be done by the Treasury Board and reported at least annually to the Public Accounts Committee.

2.47 Accountability regime for corporations not wholly-owned. In our 1979 Report, we observed that, because of the size of the government investment in mixed and joint enterprises, their control and accountability should be studied.

2.48 We are disappointed that this has not been done. With assets, liabilities, revenues and expenses of these entities in the billions of dollars (see Exhibit 2.3), we believe it is important to ensure that an appropriate framework is in place to provide accountability to Parliament.

2.49 **Legislative proposals.** The two legislative proposals dealing with improving accountability of Crown-owned corporations are Bill C-27 and Bill C-123 (Part V). Exhibit 2.4 shows a general accountability framework based largely on the outline in our 1979 Report, but with the elements of authorizing and financing added. The 1977 Government proposals and two subsequent legislative initiatives are compared in terms of the extent to which each of them address the elements of the framework.

2.50 In November 1979, the Government tabled the Crown Corporations Bill, C-27. Although that Bill had a number of deficiencies, it represented a major step toward a comprehensive and effective framework for the control, direction and accountability of Crown-owned corporations. It also responded to the majority of recommendations on Crown-owned corporations made since 1976 by this Office, the Public Accounts Committee and the Lambert Commission.

2.51 Part V of Bill C-123 does not take the same comprehensive approach as did Bill C-27. Instead, it addresses only issues which the Government presumably believes demonstrate the most pressing need for correction.

2.52 Analysis of Part V of Bill C-123 is difficult because of uncertainty over how, and the extent to which, the extensive powers of administrative discretion proposed by the Bill would be used. For example, the "unanimous shareholder agreement" contemplated by section 66.11 conceivably could be used to direct Crown corporations on a wide range of matters and could correct many of the deficiencies noted since 1976. In the absence of clear indications from the Government as to how such powers are likely to be used, we cannot comment on the extent to which implementation of Bill C-123 would meet past recommendations and current concerns.

Exhibit 2.4

Comparative Analysis of Government Initiatives

General Accountability Framework	1977 Government Proposals	Proposed Legislation C-27	C-123
Authorizing and mandate			
Instrument of national policy	X	X	—
Control over establishment of corporations			
By Parliament	—	X	(partial)
By Government	X	X	X
Limitation of subsidiaries' powers to that of parent	—	X	—
Review of mandate	—	—	—
Financing			
Controls over spending, commitment and borrowing powers:			
Capital Budget	X	X	X
Operating Budget	X	X	X
Approval of external borrowing	X	X	X
Guarantees	—	X	—
Definition of "Agent" status	—	(partial)	—
Directing			
Communication of government priorities	X	X	X
Tabled in Parliament	X	X	—
Clear statements of objectives against which to measure corporate performance	—	—	—
Compensation for government activity	X	X	—
Controls over the appointments and dismissals of directors, chairpersons and presidents	—	X	—
Duties and responsibilities of directors and officers	X	X	—
Executive salaries	X	X	—
Government approval of By-laws	X	X	—
Conflicts of interests	X	X	—
Controlling			
Scheduling of all wholly-owned corporations	X	X	(partial)
Scheduling according to clearly stated criteria, to provide for the appropriate degree of control	X	X	—
Submission of corporate plans			
For review by Government	X	X	X
Summary tabled in Parliament for information	X	X	—
Reporting			
Reporting of costs and results in relation to objectives and authorized expenditures:			
To Parliament	—	—	—
To Government	—	—	—
Treasury Board Requests for Information	—	—	X
Review and assessment of reported performance:			
By Parliament	—	—	—
By Government	—	—	—
Audit			
Appointment of Auditor	—	X	—
Audit Committee	—	X	—
Right to consult with Auditor General	—	X	—
Special reports to Board of Directors	—	X	—
Comprehensive audit	—	X	—

2.53 Aside from this, we are alarmed by the extent to which Parliament's role in the control, direction and accountability of Crown corporations has been overlooked by Bill C-123. For example, the Bill

- would continue to allow Crown corporations to incorporate or acquire subsidiaries without requiring periodic parliamentary review;
- does not require tabling of "agreements" (directives) in Parliament or their publication in corporations' annual reports;
- does not provide for improved information in annual reports provided to Parliament by Crown corporations; and
- does not require all wholly-owned parent Crown corporations to operate under the existing provisions of Part VIII of the Financial Administration Act -- Parliament's general regime of financial management and control for Crown-owned corporations -- or put forward revisions to the FAA to make it more appropriate for all such Crown-owned corporations to be listed.

Need for Improvement in Accountability Framework

2.54 Three main parties participate in the corporate accountability process: Parliament (legislative approval and scrutiny), Government (central co-ordination, direction and control), and corporate management, including boards of directors and senior management (corporate policy, operations and reporting of results).

2.55 Parliament's role is to hold both the Government and the individual corporation, through the responsible minister, to account for the public resources entrusted to the entity.

2.56 The Government's role of providing co-ordination, direction and control includes concern for protecting the public purse and achieving public policy objectives. Crown-owned corporations are structured with certain advantages. These may include:

- the ability to borrow funds at lower rates of interest than private sector corporations;
- monopolistic conditions;
- immunity from certain taxes, legislation (provincial and federal) and possibly from execution of lawsuits; and
- access to public funds in times of demonstrated need.

To minimize possible abuse and risk inherent in granting these privileges, the Government imposes constraints and controls that may limit corporate autonomy. To ensure that public policy objectives are being achieved, the Government has to monitor their implementation.

2.57 Crown-owned corporations quite rightly are concerned with achieving an appropriate level of financial performance. They must also recognize responsibility for implementing authorized public policy objectives.

2.58 The need for a sound accountability framework for wholly-owned Crown corporations is evident, especially considering the number and variety of corporations, their size, the impact of this form of organization and the many purposes for which these corporations are used. An appropriate framework can be described according to five major elements -- authorizing and mandate, financing, directing, controlling and reporting. Audit, another important element of accountability, is discussed separately.

2.59 In the following sections, we

- elaborate on the principles of the general accountability framework shown in Exhibit 2.4;
- raise questions about the existing framework and its application, particularly with respect to Parliament's role;
- present examples arising from our regular audit activities to illustrate problems that do and can occur under the existing framework; and
- summarize our concerns about the need for improved accountability of Crown-owned corporations.

Authorizing and Mandate

2.60 **Framework.** Authorizing should include creating and then determining, approving and assigning to Crown-owned corporations major purposes, powers and responsibilities.

2.61 When establishing a new corporation, its purposes, the rationale for choosing the corporate form, its powers, roles and responsibilities, and the scope of required independent audit and choice of auditor should be stated. Parliament, after due consideration and debate, should act on the Government's recommendations for the enabling legislation or approve incorporation under companies legislation.

2.62 Once in operation, the appropriate minister should report to Parliament on how the corporation is carrying out its activities. The Government, with the involvement of central agencies, should assess these reports, evaluate progress and, where appropriate, propose to Parliament legislative changes regarding purpose, powers and so on. Parliament, in turn, should consider and vote on such proposals. Parliament's involvement both in establishing and overseeing Crown-owned corporations is essential for effective accountability.

2.63 **Questions.** Our review of the existing accountability framework has led us to raise such questions as:

- Does Parliament have a satisfactory opportunity to review periodically and approve the creation of all new Crown-owned corporations, including subsidiaries of existing corporations, and the participation of the Government in mixed enterprises and other entities and associates?
- Does Parliament receive adequate information on which to assess the importance of proposed public policy objectives?
- Does Parliament have sufficient research and analytical support resources to provide it with the advice necessary to assess Government proposals?
- Is the rationale for choosing the corporate form sufficiently assessed, or is this form chosen mainly to lessen parliamentary scrutiny, internal government controls and the level of independent review?
- Have the mandates of Crown-owned corporations been established in a sufficiently clear fashion (for example, are public policy objectives identified) to provide for subsequent direction and control, or are such mandates so vaguely worded that Crown-owned corporations are able to expand their activities, possibly in unintended directions?
- Does Parliament receive adequate information on the continuing appropriateness of an approved mandate and the continuing appropriateness of the use of the corporate form to achieve it?

2.64 **Examples.** Our regular audit activities revealed a number of instances where Parliament did not have an adequate opportunity to review and approve the creation of Crown-owned corporations:

- The Canada Development Investment Corporation (CDIC) is a recent example of the creation of a Crown corporation without adequate parliamentary review. CDIC's mandate is extremely broad, and it may be interpreted to allow CDIC to participate in almost any economic activity. On 26 May 1982, the President of the Canada Development Corporation (CDC) -- a mixed enterprise government corporation -- caused the CDIC to be incorporated, following an agreement with the Minister of State on the future role of the Government as an investor in CDC. On 29 June 1982, the agreement was approved by the private sector shareholders of CDC at their annual meeting. On 15 September 1982, the Governor in Council accepted ownership of the new corporation on behalf of Her Majesty in right of Canada, changed the objectives of the corporation, made it an agent of Her Majesty, and scheduled CDIC as a Schedule D corporation under the FAA. All this occurred without adequate review by Parliament. Because CDIC has objectives virtually identical to those of CDC allowing it to participate in almost any activity, it has the potential to acquire and dispose of business interests without parliamentary approval.

- The Government approved the creation of two major Crown corporations -- VIA Rail Canada Inc. in 1977, and CN Marine Inc. in 1978 -- for the purpose of providing certain transportation services which have required a high degree of subsidization. It was anticipated at the time these corporations were set up that public funds would be required for their operations. In these instances, major Crown-owned undertakings have evolved without adequate prior parliamentary scrutiny. In the case of CN Marine Inc., the company was set up as a subsidiary of Canadian National Railway Company.

- In June 1982, a new corporation, St. Anthony Fisheries Ltd., was incorporated by the federal government under the laws of the Province of Newfoundland. The federal government agreed to make a commitment of up to $10 million by way of loan insurance guarantees through the Enterprise Development Program of the Department of Industry, Trade and Commerce. The incorporation of this corporation did not receive adequate parliamentary review.

- The Canada Lands Company Limited (formerly Public Works Lands Company Limited, incorporated in 1956) has recently created five subsidiaries without parliamentary approval:

  Canada Lands Company (Mirabel) Limited;

  Canada Lands Company (Le Vieux Port de Montréal) Limited;

  Canada Harbour Place Corporation;

  Canada Lands Company (Le Vieux Port de Québec) Inc.; and

  Canada Museum Construction Corporation Limited.

2.65 An example of the very broad mandates granted to Crown corporations is that of Canadian National Railways. Section 31 of the 1955 CNR Act grants CNR an almost unlimited mandate to acquire securities of other companies. It states:

> The National Company may, with the approval of the Governor in Council, acquire, hold, guarantee, pledge and dispose of shares in the capital stocks, bonds, notes, securities or other contractual obligations whatsoever of any railway company, or of any transportation, navigation, terminal, telecommunication, express, hotel, electric or power company or of any other company authorized to carry on any business incidental to the working of a railway, or any business that in the opinion of the Board of Directors may be carried on in the interests of the National Company.

2.66 **Conclusions.** The existing legislative framework for creating, monitoring and, where necessary, changing the purpose of using the corporate form for achieving public policy objectives can be abused. It permits a perceived need for expeditious action to become an excuse for avoiding parliamentary authorization.

2.67 Under Bill C-123, parliamentary approval will be required by negative resolution for the establishment of Crown-owned corporations by ministers. However, the Bill will severely limit the length of debate permitted. Further, the Bill, as currently drafted, will continue to allow parent Crown corporations and subsidiaries to be created by legal "persons", for example, other Crown-owned corporations, without parliamentary scrutiny.

2.68 We are concerned that Parliament may not have the appropriate opportunity and adequate information to review and approve the creation of, or participation in, the corporate form to meet public policy objectives.

Financing

2.69 **Framework.** Financing should ensure that each Crown-owned corporation has the financial resources necessary to fulfil its mandate, subject, of course, to the capacity of the Consolidated Revenue Fund and the priorities of the Government.

2.70 Financing can significantly affect the performance of Crown-owned corporations. The Government should assess the financial needs and formulate recommendations to Parliament on the form of financing (equity, loans, appropriations, etc.), timing and powers, designation as agent of Her Majesty, and related roles and responsibilities. Where the need for additional financing from the public purse can be clearly demonstrated, the Government should recommend to Parliament the form, amount and timing of such financing.

2.71 Parliament, before voting on these financing proposals, should be informed in a clear manner as to how the proposed financing is going to affect the public purse, directly or indirectly. Ongoing control by the Government over commitments, borrowing and spending should be achieved through review and approval of operating and capital budgets, and complete and timely information on the corporation's financial results. The corporation has a prime responsibility to ensure that financial resources are well managed and that dividends are declared when appropriate. Reporting to Parliament on the use of funds provided should also be a prime responsibility of the corporation.

2.72 **Questions.** Our review of the existing accountability framework has led us to raise several questions:

- Does Parliament receive adequate information on the rationale for the recommended form of financing and the effect of that choice on the measurement of corporate performance?
- Does Parliament receive adequate information to determine the effects on the public purse of the costs of achieving public policy objectives?
- Is legislation that allows Crown-owned corporations to borrow from external sources without further parliamentary approval appropriate?
- Are the cash balances and cash flows of Crown-owned corporations adequately monitored and managed?
- Does Parliament receive adequate information on the financial impact on Crown-owned corporations of changes in the wording of Appropriations?
- Do the Government and Parliament receive adequate and timely information pertaining to the guarantees, Letters of Comfort, contingent liabilities and other commitments of Crown-owned corporations?
- Are the borrowings of statutory agents and non-agent Crown corporations clearly reported to Parliament and managed as part of Canada's total debt?

2.73 **Examples.** Parliamentary approval of appropriations. Parliament may grant authority to Crown-owned corporations to draw on the Consolidated Revenue Fund for a number of purposes:

- annual appropriations to cover operating and capital expenditures not met out of revenues;
- annual appropriations for specific programs or purposes; and

- non-lapsing appropriation authority, often contained in enabling legislation, giving the corporation the right, subject to a ceiling, to draw on the CRF.

In the 1981-82 fiscal year, financial assistance provided under budgetary appropriations to Crown-owned corporations amounted to $6.5 billion, or about 9 per cent of total budgetary expenditures. Our review revealed a number of inconsistencies and anomalies both in disclosure and in the use of parliamentary appropriations.

2.74 Use of funds. An example of uncertainties surrounding parliamentary appropriations relates to appropriations to the National Capital Commission in 1980 and 1981. In 1981, the Commission received an amount of $35.9 million (1980 - $31.6 million) under the authority of Vote 45 in respect of net operating expenditures. As disclosed in our 1981 Report, $2.9 million (1980 - $2.6 million) of this amount had not been expended by the Commission at 31 March 1981 and, in our opinion, should have been shown in the financial statements as a current liability at that date and returned to the CRF rather than being retained by the Commission.

2.75 During the year ended 31 March 1982, the Commission used the unexpended balance of the 1980-81 appropriation of $2.9 million (1980 - $2.6 million) to repay loans from Canada. In our opinion, this amount should have been used either for operating expenditures, as authorized by Parliament, or returned to the CRF as a repayment of lapsed funds. In essence, the effect of using funds appropriated for operating expenditures to repay loans results in a supplementary appropriation without the authority of Parliament.

2.76 In our audit report to the Minister of Public Works, our opinion on the financial statements of the Commission for the year ended 31 March 1982 was qualified, as required by the Financial Administration Act.

2.77 Changes in appropriation vote wording. The vote wording has substantial implications on whether unspent funds lapse at the end of the year and are to be returned to Parliament. For the years ended 31 March 1981 and 1980, for example, the Office qualified its opinion on the financial statements of the National Capital Commission because the Commission had not returned unspent appropriations as required by the Appropriations Act and the Financial Administration Act. Any uncertainty with respect to lapsed funds which should be returned was alleviated in the 1981-82 appropriation by the insertion of the words "payment to" in the appropriation vote. This allows for the funds to be considered a contribution and thus retained by the entity. The purpose of the vote remained the same -- to supplement annual operating expenses. Minor alterations of vote wordings should not change the substance of the appropriation or diminish the need for Parliament to have the means to ensure that funds are spent for the purposes authorized. In these circumstances, parliamentary control is weakened because annual appropriations could be used for purposes other than those authorized by Parliament.

2.78 Cash management. The Cape Breton Development Corporation (Devco) is a Crown corporation funded by appropriations for coal mining losses, industrial development costs and capital expenditures. It reports to Parliament through the Minister for Regional Economic Expansion (DREE). In 1981-82, total funding by Canada to Devco was $133 million ($108 million in 1980-81). For Devco's coal division capital expenditures, Canada appropriated, and DREE paid, $60.4 million in 1980-81 and a further $98.5 million in 1981-82. The Corporation, however, recorded capital expenditures of only $29.5 and $72 million respectively in those years. As a result, for the two years, Devco received $158.9 million and spent $101.5 million on capital expenditures, a net overpayment by Canada of $57 million.

2.79 Commitments and Letters of Comfort. A commitment that could lead to a capital acquisition relates to CN Marine Inc., which entered into a lease agreement to charter a vessel that will cost the company a minimum of $878,000 a year plus escalation for inflation. If the company cancels the lease, it must purchase the charter vessel at the greater of net book value or its fair market value. The agreement could result in the Government funding the acquisition of a large capital asset by a Crown-owned corporation without prior scrutiny of the transaction by Parliament.

2.80 Letters of Comfort are documents used by departments and agencies to expedite loans by financial institutions to Crown-owned corporations before formal guarantee by Her Majesty. The letters are authorized by Order in Council and signed by a minister. Subsequently, they expire when Her Majesty's guarantee is granted or when the loan is repaid. In practice, they amount to guarantees issued without parliamentary approval. The use of Letters of Comfort effectively forces Parliament to approve all de facto loan guarantees by Canada. As of 31 March 1982, the majority of federal Letters of Comfort have been replaced by formal loan guarantees. Letters of Comfort amounting to $185 million are still outstanding.

2.81 Agent of Her Majesty status. The majority of Crown-owned corporations are legally constituted as agents of Her Majesty in right of Canada, either by virtue of the special or enabling act of incorporation, like Petro-Canada, or by virtue of an Order in Council under the Government Companies Operation Act; for example, Canada Development Corporation Limited. Courts may also hold that non-agent Crown-owned corporations are agents by virtue of the fact that their activities are conducted on behalf of the Government, ostensibly with the Government's authority. Similarly, the status of corporations incorporated or acquired by agent Crown-owned corporations may be unclear.

2.82 Agent status for Crown-owned corporations occupies a twilight area of Canadian jurisprudence. It is clear that agent status establishes an agent-principal relationship between the Crown-owned corporation and the Crown. What this means, however, is uncertain. There is general agreement on the following implications:

- Section 45 of the FAA declares that "money borrowed and interest thereon" by, or on behalf of, Her Majesty is a charge on and payable out of the Consolidated Revenue Fund. The prospectus statements of many agent Crown corporations include some reference to this clause. The use of agent status for debt financing results in isolating Crown-owned corporations from the discipline of the markets that applies to private sector corporations.

- Agent Crown corporations may be immune from the application of the Combines Investigation Act. Section 16 of the Interpretation Act declares that no federal statute is binding on Her Majesty or affects Her Majesty's rights or prerogatives unless the statute expressly declares that it binds Her Majesty. Several federal statutes, including the Combines Investigation Act, do not make that express declaration, and there is nothing in the statutes to imply that they bind the Crown. Their immunity was upheld recently in several court cases.

2.83 In its Fifteenth Report to the House of Commons, the Public Accounts Committee emphasized:

> ...in the strongest possible terms, its concern that the corporate form of organization, as now used in Crown corporations, makes it possible for government activities involving the spending of substantial amounts of public funds to be carried out without adequate accountability to Parliament and Government.

2.84 **Conclusions.** In view of the uncertainty that exists surrounding the agent of Her Majesty status, the full range of implications of agent status should be studied and defined in any Crown corporation legislation. Closer monitoring of all funds provided by Canada to Crown-owned corporations should be considered. Also, because of the inconsistencies in wording and disclosure of appropriations, the level of corporate liabilities and the expressed concern of the Public Accounts Committee, we conclude that improved financial management and control over Crown-owned corporations is required. This need is accentuated by the potential effect that financial activities of Crown-owned corporations can have, on the total liabilities of the Government of Canada. Serious consideration should be given to including the borrowings of agent and non-agent Crown-owned corporations in the Government of Canada Statement of Assets and Liabilities.

Directing

2.85 **Framework.** Directing should involve communicating Government priorities and translating the purposes and powers authorized for each Crown-owned corporation into operational goals and measurable performance targets.

2.86 When establishing a new parent Crown corporation, the Government should define and communicate the specific responsibilities of the corporation and ensure that the roles and responsibilities of directors and officers are clear. The responsibilities assigned to new wholly-owned subsidiaries and controlled corporations should receive government review. Policy direction should be given to the corporation, performance targets set, and a communication framework established. Parliament should be aware of, and should approve, the authority that central and regulatory agencies have regarding Crown-owned corporations. Where appropriate, the corporations should make recommendations to the Government for changes to legislated mandate and operational goals. Such changes, when approved by Parliament, should provide the legislative basis for the entity's future activities.

2.87 **Questions.** Our review of the existing accountability framework raises the following questions:

- Are the respective roles and responsibilities clearly enunciated and understood, on the one hand, among the responsible ministers, central agencies, and departments and, on the other hand, among boards of directors and officers of the corporations?
- How regularly does the Government translate broad mandates and objectives into more specific objectives and priorities for guiding and directing Crown-owned corporations, their boards of directors and management?
- Are the directives communicated to Crown-owned corporations sufficient to ensure that corporate activities are directed to achieving all relevant public policy objectives?
- Does Parliament receive adequate information on the public policy objectives assigned to Crown-owned corporations and the general direction given by Government over their implementation?
- Is the information received by the Government adequate to provide assurance that the strategies and activities of Crown-owned corporations are in accordance with Government priorities?

2.88 **Examples.** Government directives. As required for all Crown-owned corporations, Air Canada submitted its 1981 annual capital budget to the Treasury Board for review. This budget was recommended to the Governor in Council for approval on 22 January 1981 on the condition that "Air Canada not commit any of its contingency funds on major new initiatives without prior Treasury Board approval..." On 3 September 1981, the Treasury Board Secretariat was alerted by the Department of Transport to a pending announcement by Air Canada of the acquisition of an interest in a company called Innotech Aviation Limited. On 4 September 1981, a senior official of the Secretariat responded that notice of one day prior to the proposed purchase was contrary to the spirit of the Treasury Board decision that stipulated prior approval. As disclosed in Air Canada's financial statements, the 30 per cent purchase of Innotech Aviation Limited amounted to some $4.5 million and was effective 1 July 1981, without the prior knowledge and approval of Treasury Board.

2.89 An example of unclear roles and responsibilities relates to the Canadian Ownership Account. The 1980 Government statement on the National Energy Program indicated that the Government intended to acquire several large oil and gas firms. The acquisitions were to be achieved through the establishment of a self-financing program called the Canadian Ownership Account (COA). The Petroleum Administration Act was amended on 23 April 1981 to impose the necessary charges and taxes to fund the Account. We audited transactions in COA in the period 1 July 1981 to 31 March 1982 and our conclusions are described more fully in Chapter 15.

2.90 As of 31 March 1982, Petro-Canada's acquisition of Petrofina for $1.7 billion was funded from the Account with $711 million. We expected that the parties authorizing the acquisition would have evaluative information on Petrofina; for example, the value of Petrofina in relation to price, alternative acquisition strategies, and a post evaluation of Petrofina assets to assess the extent to which value for money was obtained. We requested such information from the Department of Energy, Mines and Resources. The Department indicated that it was the responsibility of Petro-Canada to conduct such analyses and that it would be inappropriate for the Department to second-guess a decision by Petro-Canada. In sum, it was the Department's view, as explained in Chapter 15, that Petro-Canada, not the Department, was responsible for ensuring that value for money was achieved. In our opinion, the commitment of $1.7 billion dollars to Petro-Canada by the Department without commensurate responsibility raises serious concerns.

2.91 **Conclusions.** Bill C-123 seeks to address the issues of directing and respective responsibilities by providing for the Governor in Council to issue directives to Crown-owned corporations as "sole shareholder". However, no provision is made for tabling such directives in Parliament. The Bill allows for corporate plans to be used as the vehicle through which Government objectives and priorities and the responsibilities of wholly-owned Crown corporations can be reconciled. The extent to which Bill C-123 will clarify the question of responsibilities must await the test of time.

Controlling

2.92 **Framework.** Controlling by the Government and Parliament means ensuring that activities are in compliance with prescribed legislation, policies and directives. It requires that sufficient attention be given to appointments and dismissals of directors, chairmen and presidents to ensure that the Government's and the corporation's interests are addressed.

2.93 Crown-owned corporations should clearly understand and comply both with the powers given to them and with government directives. Classification of Crown-owned corporations under the FAA for control purposes should be consistent and made according to clear criteria. The activities and performance of these corporations should be monitored by the Government to ensure that its directives are complied with and established objectives are achieved. Parliament, too, should have the opportunity to assess compliance with legislative authorities, achievement of stated and approved objectives, and the appropriateness of allocated roles and responsibilities.

2.94 **Questions.** Our review of the existing accountability framework has led us to raise such questions as:

- Does the Government systematically review the activities of Crown-owned corporations to determine that they are within their statutory powers?
- Does the Government ensure that its priorities and directives are being followed by Crown-owned corporations?
- Does the Government periodically evaluate the effectiveness of the activities of Crown-owned corporations?
- Does the Government develop and apply criteria for determining the desired amount of control over each Crown-owned corporations?
- Does Parliament clearly communicate the degree of control it wants the Government to exercise over Crown-owned corporations?
- Does Parliament have assurances that the Government is exercising its responsibilities for controlling Crown-owned corporations?

2.95 **Examples.** An illustration of where the Government has not regularly monitored the activities of Crown-owned corporations to determine that they are within their statutory powers is the Canadian Dairy Commission (CDC), which collects levies without the authority of the supporting legal mechanism. Levies are assessed by CDC to cover the cost of disposing of surplus dairy products.

Producers levies for the dairy year ended 31 July 1981 amounted to $134.6 million, of which $7.7 million was collected directly by the Commission by deduction from subsidy payments to producers. Other levies are deducted from payments made by processors to producers on delivery of industrial milk and remitted to the provincial marketing boards which, in turn, forward them to the Commission.

2.96 Section 12 (f) of the Canadian Dairy Commission Act empowers the Governor in Council "to make regulations regulating the marketing of any dairy product, including regulations ...

> authorizing the Commission to fix, impose and collect levies or charges from persons engaged in the marketing of any dairy product ... and to use such levies or charges for the purpose of carrying out its functions under this Act; ..."

Since the creation of the Canadian Dairy Commission in 1967, no regulation concerning levies has been made pursuant to section 12. The Commission states that levies are being imposed and collected by the Canadian Dairy Commission under provincial legislation.

2.97 In the absence of a regulation authorizing the Commission to fix, impose and collect levies or charges, the Commission is, in our view, powerless to do so. Thus, producer levies, having been instituted without benefit of regulation, are, we believe, ultra vires of the Canadian Dairy Commission. As a result, in our audit report to the Minister of Agriculture, our opinion on the financial statements of the Commission for the year ended 31 July 1981 was qualified accordingly.

2.98 A further example relates to Loto Canada Inc. During the year ended 31 March 1981, it financed research on gaming concepts including research and development of a sports pool scheme. This financing continued subsequent to the year end and, in August 1981, Cabinet decided that this sports pool scheme would be operated by a new federal agency. In September 1981, the Corporation decided, with the concurrence of the Government, that all payments made on the research and development of the sports pool scheme should be fully recovered from the Government of Canada. Payments made for this purpose amounting to $1.2 million up to 1 June 1982 have been fully recovered from the Government of Canada.

2.99 The corporation takes the position that this financing was a business decision within the general powers of the corporation and in support of the intention of the federal government.

2.100 However, in our opinion, payments made for research and development of the sports pool scheme, even though recovered by the corporation, were not specifically authorized by the corporation's Articles of Incorporation, which restrict the business that the corporation may conduct and manage. Thus, they were contrary to the provisions of the Canada Business Corporations Act. Our opinion on the financial statements of Loto Canada Inc. for the year ended 31 March 1981 was qualified in this regard.

2.101 Classification. The Financial Administration Act uses criteria for specifying classification categories that define accountability controls exercised by the Government over each category. For example, a corporation included in Schedule D of the Act is "ordinarily required to conduct its operations without appropriations."

2.102 This classification criterion does not appear to be applied consistently. We note that several Schedule D corporations have performance records which indicate that they have regularly required public funds. They include VIA Rail, Canadian Broadcasting Corporation, Cape Breton Development Corporation, and the St. Lawrence Seaway Authority.

2.103 Monitoring. The controlling and monitoring of the operations of Crown-owned corporations on behalf of the Government vary significantly among government departments.

2.104 For example, the Department of Regional Economic Expansion disburses funds to Devco from appropriations voted by Parliament, but does not monitor to see how the money is spent. Excess cash payments of $57 million were made to Devco from appropriated funds for capital expenditures at the request of the corporation, with no matching of payments against demonstrated needs, either by the Department or by a central agency.

2.105 Some Crown-owned corporations are reimbursed, in some cases under contract arrangements, for undertaking non-economic activities in the national interest under the direction of the Government. In this regard, the Department of Transport has entered into contracts with VIA Rail (a schedule D corporation) and with CN Marine Inc. a subsidiary of CN, for providing services that are essential to the national transportation system and within the Government's jurisdiction.

2.106 Parliament has authorized appropriations for the Department of Transport to make payments to these corporations for providing services. Thus, the Department has an obligation to account for its expenditure of funds from the Consolidated Revenue Fund to ensure that the affairs of the Government are being administered in the best interest of the taxpayer. The independent status granted the corporations has hampered the Department's ability to provide such an accounting. The following cases illustrate problems with the current relationships.

2.107 Expenditures by the Department of Transport to VIA for management of the company, capital purposes, rail passenger services and other costs incurred by the company amounted to $451 and $540 millions in 1980-81 and 1981-82, respectively. In 1981, 70 cents out of every dollar of VIA's operating costs were reimbursed by the departmental program. VIA has a monopoly in the passenger rail business, but faces competition from other transportation modes. The program has not successfully met its target of reducing subsidies which now more than double the $240 million ceiling imposed by Parliament when the corporation was established in 1977. Furthermore, almost every forecast of expenditure made to Parliament and Cabinet has been underestimated and, as a result, the program has required substantial supplementary funding.

2.108 The Department has been unable to obtain or develop reliable financial or operating data on VIA's operations.

2.109 Also, expenditures by the Department to CN Marine Inc. for the operation of ferry and related services amounted to $143 million in 1981-82, which exceeds 80 cents out of each dollar of CN Marine's operating expenditures. The Government has a constitutional obligation to subsidize the majority of the services funded from the program.

2.110 A number of problems exist in the relationship between the Department and CN Marine, including the following:

- The corporation received advance payments of $25 million for capital purposes. Instead of paying the money to the contractor as the Department assumed, the funds were placed in a special bank account. Interest of $4.8 million was used to offset capital costs. As a result, the annual report and capital budget of the corporation understated the cost of assets by $4.8 million.

- The corporation has successfully resisted the Department's efforts to have an independent audit carried out on the economy and efficiency of the ferry operations.

2.111 The accountability of program managers is also diffused. Although they contract for services with the Crown-owned corporations, they believe that they do not have the leverage to enforce the contact terms that one normally associates with a contract relationship. For example, they have difficulty withholding payments because the services being purchased are required by legislative, regulatory or political commitments.

2.112 The difficult relationships have hampered the Department's ability to manage the program with due regard to economy and efficiency and, in the circumstances, departmental officials do not perceive themselves to be fully accountable for payments from the Consolidated Revenue Fund. In our view, this represents a serious weakness in the management of public funds.

2.113 The Government should re-examine relationships among the central agencies, departments, and corporations, particularly where non-economic services are purchased from a Crown-owned corporation and where the payments represent a substantial portion of the expenditures of that corporation.

2.114 **Conclusions.** As the comparative analysis of Government initiatives indicated, the pending Bill C-123 considerably strengthens the role of ministers in controlling the financing and directing of wholly-owned Crown corporations; however, it does not address the needs of Parliament. When the Bill is enacted, we will review the functioning of the new administrative arrangements and will report to Parliament.

Reporting

2.115 Reporting should involve providing information relating to plans, resource requirements, achievement of objectives, discharge of responsibilities and performance.

2.116 Crown-owned corporations should report to Government on their plans, performance and achievement of goals. Government should set out such reporting requirements and ensure that reports are prepared as and when required. Parliament should be made aware of the reporting requirements and should have the opportunity to evaluate periodically these reports and consider them when considering changes in mandate or objectives of the corporation and relevant legislative, expenditure and other government proposals.

2.117 **Questions.** Our review of the existing accountability framework has led us to ask:

- Is information received by Parliament regarding Crown-owned corporations timely, accurate and complete?
- Does Parliament receive adequate information to review and question the plans, activities and performance of Crown-owned corporations?

2.118 **Examples.** Timely information is often not made available. Delays reduce the usefulness of information for addressing current issues. Tables 2.1 and 2.2 indicate that delays do occur.

Table 2.1

Tabling of Annual Reports of Schedule C and D Crown Corporations with Parliament (Note)

Number of months after fiscal year end	1982		1981	
	Number	%	Number	%
Within four months	15	36	15	38
Over four-five months	4	9	4	10
Over six months	23	55	21	52
Totals	42	100	40	100

Note: Under the FAA, Schedule C and D corporations are required to submit their annual reports to the appropriate minister within three months of their fiscal year ends for tabling in Parliament within fifteen days of receipt.

2.119 Possible explanations for delays in Parliament receiving annual reports include: Parliament not sitting; financial statements not finalized on time by the corporation; and audit work not completed on time. Whatever the reasons, it is clear that, for a majority of cases, Parliament is not receiving timely annual reports on Schedule C and D corporations.

2.120 A further example of information not being made available to Parliament on a timely basis relates to capital budgets. The FAA requires that the appropriate minister table annually in Parliament Crown corporation capital budgets after their approval by the Governor in Council. Treasury Board Circular No. 1976-38 on capital budgets for Crown corporations requires capital budgets to be sent to Treasury Board not later than three months prior to the commencement of each financial year and, in any event, not later than 30 November of the year preceding the new financial year. Although the FAA does not indicate specific timing for Government approval or tabling in Parliament, it is reasonable to expect that capital budgets, like the Estimates, would be submitted and approved well ahead of the financial year to which they relate. For the fiscal year ended March 1982, only two capital budgets were approved prior to the fiscal year to which they applied. Most were approved during the applicable fiscal year. In one instance, approval came after the fiscal year end.

Table 2.2

Time of Approval of Capital Budgets of Schedule C and D Crown Corporations By Governor in Council

Approval Before/After fiscal year end	Fiscal Year Ended March 1982		Fiscal Year Ended March 1981	
	Number	%	Number	%
12 months before	2	5	5	14
7-11 months before	21	54	13	35
4-6 months before	3	8	5	13
1-3 months before	2	5	4	11
1-3 months after	1	3	3	8
No capital budgets submitted (Note)	10	25	7	19
Totals	39	100	37	100

Note: The 1982 and 1981 numbers exclude three inactive corporations.

2.121 The information provided to Parliament in the Estimates varies. Departmental (Schedule B) corporations submit detailed Estimates and are required to submit multi-year plans for approval by Cabinet. Some other Crown-owned corporations, receiving appropriations for annual operating expenditures, provided Parliament with no details of their estimated cash requirements, while others have provided such detailed information. Standardization in wording and better disclosure would improve the information on Crown-owned corporations.

2.122 The disclosure of the receipt of appropriations in the annual report of entities also varies. In some entities, amounts received through appropriations are not disclosed. In others, details of the purpose of the Vote, amounts provided, as well as amounts lapsed are included. Appropriations, as well as their accounting treatment, should be fully disclosed.

2.123 In addition, information on how well Crown-owned corporations meet their objectives generally is not provided to Parliament. The measurement and reporting of program performance is now a responsibility of government departments, but not of most Crown-owned corporations. Where responsibility for program delivery is assigned to corporations, the Government normally will not receive an evaluation of program performance unless a similar requirement is in place.

2.124 Further to what we noted in our 1981 Report, we have been unable to provide to Parliament, from the information so far available, an opinion on whether it is appropriate for CN to claim losses for tax purposes, even though the prior years' deficits which gave rise to these losses were fully funded from the Department of Transport's budgetary appropriation. It would appear from CN's financial statements that, for the years 1978 through 1981, income taxes were reduced by some $329 million on the application of such prior years' losses. This issue involves substantial double benefits in the form of foregone tax revenue. The implications of this extraordinary item were not fully assessed by the Department of Transport at the time of CN's recapitalization in 1977.

2.125 **Conclusions.** We are concerned that, for Crown-owned corporations other than departmental corporations, Parliament:

- is not receiving timely annual reports and capital budgets of many Crown-owned corporations;
- is not receiving adequate information on the plans and resource requirements of most Crown-owned corporations; and
- does not receive adequate and relevant information on the performance of most Crown-owned corporations, both in relationship to their public policy objectives and in terms of their impact on the public purse.

A hightened sense of urgency is needed both in meeting established reporting deadlines and in improving the type of information being reported.

Auditing of Crown-owned Corporations

2.126 The sort of weaknesses in the legislative and administrative framework identified in earlier sections of this chapter can only be resolved through changes in legislation and related administrative support. However, auditing has a constructive and key role to play in providing assurances on the accountability of Crown-owned corporations to the Government and to Parliament. Indeed, an independent audit may be a means whereby the autonomy of Crown-owned corporations can be maintained and reconciled with accountability to the Government and to Parliament. The assurance to be gained from an independent audit depends on the audit mandate and scope.

2.127 **Types of audit.** There are three basic types of audit: attest, legislative and comprehensive:

- Attest audits are designed to provide assurances that the financial position of the audit entity is fairly presented.
- Legislative audits are designed to fulfil the aims of attest audits and also to provide assurances that legislative authorities have

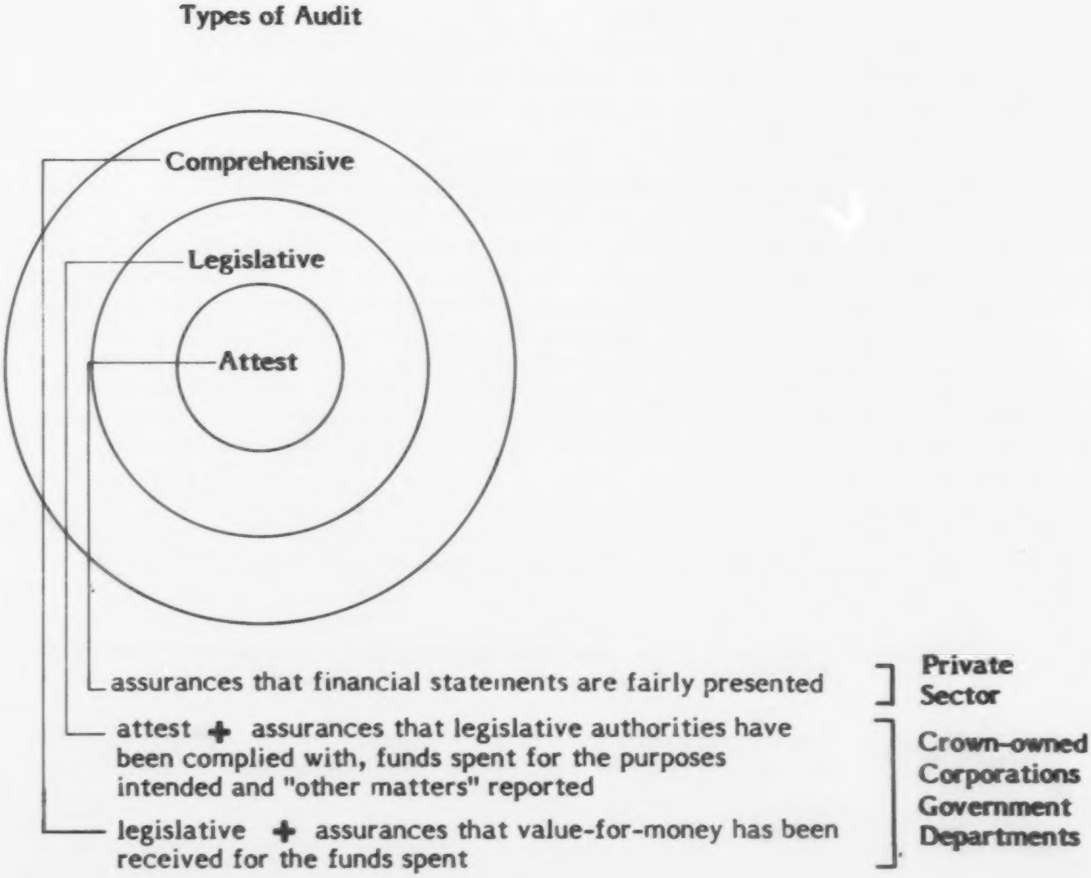
been complied with, that funds have been spent for the purposes intended and that any "other matters" are reported.

- Comprehensive audits are designed to achieve the aims of legislative audits and also to provide assurances that value for money has been received for funds spent.

These types of audit have different applicability in different types of organizations. Private sector profit-oriented organizations normally have attest audits. Crown-owned corporations and government departments normally have legislative and comprehensive audits, respectively. Exhibit 2.5 indicates the different types of audit and their applicability.

Exhibit 2.5

Types of Audit and Applicability


Types of Audit
Comprehensive
Legislative
Attest
assurances that financial statements are fairly presented
attest + assurances that legislative authorities have been complied with, funds spent for the purposes intended and "other matters" reported
legislative + assurances that value-for-money has been received for the funds spent
Private Sector
Crown-owned Corporations
Government Departments

2.128 **Role of the Auditor General.** The Office of the Auditor General has a dual role, first as auditor of the accounts of Canada, and second as the appointed auditor of a number of Crown-owned corporations. The Auditor General's mandate, as defined in the Auditor General Act of 1977, provides the legislative basis for conducting audits within government departments and agencies. The products of such audits are an opinion on the annual financial statements of Canada as contained in the Public Accounts and the Auditor General's annual Report to the House of Commons.

2.129 **Observations as auditor of the accounts of Canada.** The Government's investment in Crown-owned corporations is significant and, as of 31 March 1982, amounted to approximately $25 billion, representing, before allowance for valuation, about 63 per cent of total financial claims reported as assets in the Statement of Assets and Liabilities in Section 2 of Volume I of the Public Accounts of Canada.

2.130 As indicated in Note 3 to the financial statements of Canada, although borrowings by and other liabilities of agent Crown corporations from lenders other than the Government are considered a charge on and payable out of the Consolidated Revenue Fund, such borrowings are not included in the accounts of Canada since they are intended to be, and in practice are, repaid directly by the corporations. At 31 March 1982, these borrowings amounted to about $13 billion ($10 billion in 1981). If included in the accounts of Canada, total liabilities reported would be increased by 9.6 per cent, that is from $134.1 billion to $146.9 billion. It should be noted that the assets of these agent corporations exceed the $13 billion of liabilities.

2.131 Because the assets, liabilities, revenues and expenditures of these entities are not included in the financial statements of Canada, we have concluded that, for this reason and others, the stated accounting policies do not result in an appropriate presentation of the assets and liabilities of the Government of Canada at 31 March 1982 and its revenues and expenditures for the year then ended.

2.132 **Observations as auditor of a number of Crown-owned corporations.** The roles and responsibilities of auditors of Crown corporations, whether this Office or private sector auditors, are set out in the FAA and the enabling legislation of each Crown corporation. The type of audit generally required for those corporations scheduled under the FAA is a legislative audit.

2.133 The Office audits and reports on the annual financial statements of 8 departmental Crown corporations listed in Schedule B and 36 (2 as joint auditor) of the agency and proprietary Crown corporations listed in Schedules C and D to the Financial Administration Act. Audits of agency and proprietary Crown corporations are reported on in accordance with the provisions of section 77 of the FAA.

2.134 In previous years, the reservations of opinion have been reported in a separate chapter of the annual Report. This year, however, reservations of opinion on the financial statements of Crown-owned corporations have been reported in this chapter in the following paragraphs:

- Canadian Dairy Commission (paragraph 2.95)
- Loto Canada Inc. (paragraph 2.98)
- National Capital Commission (paragraph 2.74)

2.135 Reservations of opinion on the Canada Employment and Immigration Commission, Canada Pension Plan and Exchange Fund Account are reported in Chapter 15 of this Report.

2.136 In our Reports from 1976 to 1982, there have been a total of 51 separate observations brought to the attention of Parliament and the Government relating to those corporations audited by the Office. These reservations of opinions dealt with legislative audit issues such as:

- limitation of audit scope;
- deficiencies or inconsistencies in the application of stated accounting policies;
- major uncertainties which were unresolved at the reporting date;
- significant transactions that were not within the statutory powers of the entity;
- transactions that did not comply with Treasury Board guidelines;
- proper books of accounts not being kept and not agreeing with the financial statements presented for audit; and
- other matters; for example, questionable practices.

2.137 To our knowledge, for the same time period, no reservations of opinion were brought to the attention of Parliament or the Government for those Crown-owned corporations not audited by this Office under section 77 of the Financial Administration Act. This significant difference may be the result of private sector auditors applying an identical audit approach and scope but finding, either that no such matters existed or that they were not believed to be significant enough to warrant bringing to the attention of Parliament and Government. Also, corporate management may have initiated corrective action to preclude the necessity of having an audit qualification. Or the difference may be because private sector auditors may have applied a narrower audit approach and scope and would, therefore, not be in a position to identify matters to be reported.

2.138 The Office is the appointed auditor of some Crown-owned corporations and private sector auditors are the appointed auditors of others. Therefore, it is essential that there be a clear understanding and consistent application of audit roles and responsibilities. With this goal in mind and because of its unique dual role and substantial public sector audit experience, the Office has prepared a paper setting out the current roles and responsibilities of auditors of Crown-owned corporations. Also, a workshop is being planned by the Office to which other auditors of Crown-owned corporations will be invited to discuss this important topic. Consistency, co-operation and communication among all auditors of Crown-owned corporations will provide greater assurances to the management of such entities, their boards of directors, Government and Parliament.

2.139 **Selection of auditor.** The Financial Administration Act regulates the appointment of auditors of Crown-owned corporations. If an auditor is not named in the enabling legislation, the appointment is made by the Governor in Council. At present, the Auditor General of Canada is the auditor for all Schedule B, all Schedule C (one on a joint-audit basis), and about three-quarters of the Schedule D corporations. Other Crown-owned corporations are audited by private sector auditors.

2.140 In June 1979, proposed guidelines to be used in choosing an auditor of a Crown-owned corporation were developed by the Office in consultation with the Canadian Institute of Chartered Accountants. These proposed guidelines were submitted to the Comptroller General for consideration in the drafting of Treasury Board Regulations in relationship to section 66(2) of Bill C-27. The pending Bill C-123 does not address this issue.

2.141 **Type of audit needed for wholly-owned Crown corporations.** At present, public funds flowing through government departments and agencies are subject to a broader scope audit than are the public funds and resources of wholly-owned Crown corporations. Given the significance of these corporations in fulfilling public policy objectives, it is reasonable to conclude that they should be subject to the same scope of audit as is provided for government departments and agencies to provide the Government and Parliament with the same degree of independent audit assurance. As stated in our 1979 Report:

> Parliament, representing the Canadian taxpayers, has a right and a responsibility to ensure that Crown corporations are accountable for achieving government policy objectives. Because these objectives can seldom be measured on the basis of profitability, an examination of financial performance alone is not a sufficient basis for assessing performance. Comprehensive auditing can ensure an appropriate degree of accountability for Crown corporations without jeopardizing their independence from Parliament. For corporations owned outright by the Government, the comprehensive audit . . . should be a requirement.

2.142 For several years, the Office has been actively engaged in consultations with the Standing Committee on Public Accounts, the President of the Treasury Board, the Comptroller General of Canada and several presidents of large Crown-owned corporations to discuss the type of audit that is appropriate for Crown-owned corporations and the role of this Office in such audits.

2.143 Although present legislation does not require comprehensive auditing for all Crown-owned corporations, it does not prevent them. The appropriate minister, the board of directors or management may ask the auditors to conduct such a broad-scope audit.

2.144 Comprehensive audits have been, or are being, conducted in the following six Crown-owned corporations. They were part of the "laboratory group" established by the Office in 1979 whereby boards of directors and management agreed to have such audits carried out:

- Atomic Energy of Canada Limited - Research Company;
- Canada Mortgage and Housing Corporation;
- Canadian Broadcasting Corporation;
- Export Development Corporation;
- Federal Business Development Bank; and
- Teleglobe Canada.

Two of these corporations are audited by private sector auditors with whom we are co-operating on methodology development. The seventh member of the original lab group, Eldorado Nuclear Ltd., decided against having a broad-scope audit conducted. In its Fifteenth Report, the Public Accounts Committee concluded that Eldorado's refusal to involve itself in a comprehensive audit was unacceptable and that such an audit would be of benefit to the company.

2.145 In addition, in the case of the Canadian Dairy Commission, a comprehensive audit was conducted at the request of the responsible Minister. Comprehensive audits have also been conducted in the International Development Research Centre and Northern Transportation Company Limited.

2.146 Bill C-85 includes the term comprehensive audit in the enabling legislation of a proposed Crown corporation, Canagrex. Section 29(4), as amended in committee, included the provision that:

> The accounts of Canagrex shall be audited annually by the Auditor General of Canada and the Auditor General may, where he deems it

necessary, conduct a comprehensive audit of the affairs of the corporation.

2.147 Finally, it should be noted that New Zealand, Australia and other countries have empowered their Auditors General to conduct broad-scope audits of Crown-owned corporations. For the United Kingdom, similar responsibilities have been given to an independent commission.

2.148 With the substantial experience, body of skilled people, methodology and developing standards, the needed missing ingredient is legislation to ensure that the corporate form, as well as the departmental form, is subject to the same type of independent review. Because public funding is involved, there is a need for broad-scope independent reviews, regardless of the chosen form of organization.

2.149 As with the application of comprehensive auditing in government departments, the scope, timing and frequency of review would be influenced by the nature of the activities, extent of information being reported, the quality of the internal audit function, and so on. However, although the audit mandate and scope should be the same for government departments and for wholly-owned Crown corporations, the reporting of audit results should recognize the different structure and the responsibility of boards of directors. Accordingly, the results of comprehensive audits should be communicated by the auditor to the board of directors through its audit committee. Only in cases where the board does not deal satisfactorily with matters raised in such reports, or where there are matters of such significance that, in the auditor's judgement, need to be brought to the attention of Parliament, should such matters be reported by the auditor to the minister and, through the minister, to Parliament.

2.150 **Conclusions.** Bill C-123 advances no provisions dealing with the audit of Crown-owned corporations. Although some corporations have had comprehensive audits conducted, others have chosen not to. Thus, we are concerned that Parliament and the Government are not receiving adequate assurances that the overall accountability framework for Crown-owned corporations is functioning. We conclude that legislation is necessary to require comprehensive auditing for all wholly-owned Crown corporations to ensure a consistent form of independent review for this important and growing part of the public purse.

GOVERNMENT CONTRACTING PRACTICES

GOVERNMENT CONTRACTING PRACTICES

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3

GOVERNMENT CONTRACTING PRACTICES

SYNOPSIS

3.1 In our audit of contracting procedures for compliance with regulations, we paid particular attention to the use of exceptions under Section 8 of the Government Contracts Regulations. Section 8 allows for contracting without tender, or sole source contracting, under certain circumstances. We conducted our examination in five line departments, as well as in Treasury Board and the Department of Supply and Services-Supply Administration (DSS-Supply).

3.2 Our audit sample of 324 contracts revealed that contracting without tender is a general practice. In our sample, 254 or 78 per cent of the contracts were let under Section 8. On a government-wide basis, our figure compares to statistics provided by DSS-Supply which show that up to 70 per cent of the number of contracts processed by them could be defined as sole source.

3.3 When we analysed Section 8 contracts, we found a significant difference in the quality of documentation used to support the definition of requirements and the selection of suppliers. When departments have to go to a central agency for contract approval -- either to Treasury Board or DSS-Supply -- the documented substantiation for a sole source contract is better than when departments have authority to proceed on their own. Treasury Board and DSS-Supply provide an effective control over departmental use of Section 8 by challenging these contracts until they conclude that they are in the public interest and satisfy the intent of legislative and regulatory requirements. This challenge applied to approximately $3.4 billion worth of Section 8 contracting during 1981-82.

3.4 Documented challenge and substantiation are much less rigorous when departments have the delegated authority to approve Section 8 contracts. As a result, contracts are difficult to monitor for payment purposes and to evaluate for contractor performance.

3.5 This is significant because, first, there is a high volume of sole source contracting within departments' delegated authority (123 of the 254 sole source contracts in our sample, or 48 per cent) and, second, it constitutes a high dollar value ($2.9 million in our sample). Although this is a small percentage of the total dollar value of sole source contracts in our sample (7.1 per cent), it is material on a government-wide basis -- possibly as high as $300 million.

3.6 Whether a contract is tendered or not tendered, we found that there is usually some lack of compliance with government contracting policies and guidelines. For example, this chapter discusses the following compliance issues:

- In 19 per cent of the cases audited, contracts were "approved" by people who did not have authority, or departmental approval procedures were not followed.
- In 22 per cent of the cases audited, goods were received or services rendered before a contract was awarded.
- In 23 per cent of the cases audited, there was insufficient evidence that pre-audit steps had been taken to ensure proper approval and payment under Sections 26 and 27 of the Financial Administration Act.
- In 62 per cent of the cases audited, no post-contract evaluation had been done to feed back into the contracting process.

3.7 The information obtained during our audit indicates that deficiencies in the contracting process are symptoms of deeper problems in government contracting. We concluded that the following three causes of contracting deficiencies must be treated before fundamental improvements can take place:

- Although Treasury Board guidance on contracting is appropriate for goods and high dollar value service contracting, for service contracts within a department's delegated authority, this framework is open to wide variations in interpretation.
- The monitoring of departments' contracting activities could be more effective. Although Treasury Board does monitor departments through the contract submission proposal process, reports and regular evaluations, it does not generally carry out on-site audits. To do so would require a large increase in central agency resources. In our opinion, it would be more appropriate to have this function performed by internal audit within departments. However, our audit reveals that this is not always done.
- We observed that the efforts of contracting staff in departments to ensure that contracting policies and regulations are followed are not adequately supported by senior management. For example, they are often asked to "bend the rules" to meet an operational requirement.

Audit Scope

3.8 In January 1981, the Public Accounts Committee asked the Auditor General "to proceed with an evaluation of the use of exceptions under Section 8 of the Government Contracts Regulations." Section 8 of the Government Contracts Regulations states that tenders are required, except where:

- the estimated expenditure does not exceed $30,000;
- there is a pressing emergency;
- the nature of the work is such that it would not be in the public interest to invite tenders; or
- only one person is capable of performing the contract.

3.9 To conduct the evaluation, we developed an audit program which we implemented in five line departments (Energy, Mines and Resources; National Health and Welfare; Communications; Industry, Trade and Commerce; and Environment) as well as in Treasury Board and DSS-Supply, where appropriate.

3.10 The audit was based on an examination of files. Interviews were used for corroborative purposes only. The size of the audit sample and the number and value of Section 8 contracts included in it are shown below:

Audit Sample

	Contracts	Value
Total sample	324	$ 63,360,000
Section 8	254	$ 40,450,000
Section 8 as a percentage of total	78%	64%

Each contract in the sample was audited against the following phases of the contracting process:

- requirements definition;
- supplier selection;
- contract approval and award;
- contract administration; and
- contract evaluation.

3.11 Audit criteria were established for each phase based on Treasury Board regulations and guidelines and on DSS-Supply requirements for contracting.

Observations

Quality of Contracting

3.12 Our sample of 254 contracts let under Section 8 fell into two groups: those that required Treasury Board or DSS-Supply approval, and those that could be handled within the departments' delegated authority. The number, dollar value and percentage of the sample in each of these groups is shown below.

Section 8 Audit Sample

Description	Approved by TB/DSS-Supply	Approved by Departments
• number of sample contracts	131	123
• value of sample contracts	$ 37,576,000	$ 2,872,000
• percent of Section 8 value	92.9%	7.1%

3.13 When we analysed the results of our examination of the contracts in these two groups, we found that the documentation supporting the requirements definition and supplier selection phases of the contracting process usually met audit criteria if the contract had been approved by Treasury Board or DSS-Supply. This was not the case for sole source contracts let within a department's delegated authority, as shown below.

Deficiencies in Sole Source Contracts

Requirements Definition/Supplier Selection

	Approved by TB/DSS-Supply		Approved by Departments	
Deficiency	No.	%	No.	%
• Inadequate Definition of Requirement	12	9%	46	37%
• Inadequate Justification of Supplier	17	13%	55	45%

3.14 We recognize that the requirement for a sole source contract cannot always be precisely defined and that final selection of a qualified supplier may be based on personal compatibility where technical or professional qualifications are equivalent. In fact, the rationale behind Section 8 is to allow program managers some flexibility within the contracting process. However, when it is difficult to define the requirement, we would expect to find a better justification of the sole source selection than a tick (✓) in an "urgency" box on a purchase order or no documented justification at all, which was often the case when departments approved contracts within their delegated authority.

3.15 We carried out further analysis on the available data in the two groups to determine whether significant inadequacies in the requirements definition or supplier selection have an impact on the adequacy of the contract itself. We found that when Treasury Board or DSS-Supply approved a contract there was reasonable certainty that a proper rate was being charged and that contract terms were adequate to monitor contract progress and to hold a supplier accountable. As shown below, this was not the case when a contract was approved within a department's delegated authority.

Deficiencies in Section 8 Contracts

Fees/Contract Terms

	Approved by TB/DSS Supply		Approved by Departments	
Deficiency	No.	%	No.	%
• Inadequate Fee Challenge	6	5%	22	18%
• Inadequate Contract Terms	6	5%	40	33%

3.16 Based on the above analysis, we observed that the controls in the government contracting process work well up to the contract award phase when sole source contract approvals rest with Treasury Board or DSS-Supply. This applies to the majority of sole source contract dollars. Although there are some problems, they appear to be exceptions and do not form a pattern.

3.17 On the other hand, we observed that requirements definition and supplier selection of Section 8 contracts within authority delegated to departments are not well controlled. Although this is a small percentage of the total sole source contract dollars (7.1 per cent in our sample), the absolute dollar values are material ($2.9 million in the sample and possibly as much as $300 million government-wide).

3.18 Some examples of deficiencies in sole source contracts let by departments within their delegated authority are described below to show that inadequate challenge at the requirements definition and supplier selection phases often results in questionable prices being charged. It also results in the absence of milestones and specified outputs against which progress can be monitored and payments can be made.

- A $26,000 contract was let "to develop and document procedures." There was no project plan, no milestones and no phased outputs. Two more contracts were let and two amendments were required to extend this project, for a final total of $113,000. The contract extensions were justified on the grounds that "the initial estimate was optimistic in that the complexity of the procedures to be developed was underestimated." Not only was the initial "requirement" underestimated by $87,000, but a situation was established whereby the department was locked in because of the special knowledge developed by the contractor, who increased his per diem rate by 40 per cent (from $215 to $300) over the term of this 18-month project.

- There was no justification for a sole source supplier to conduct a "special project" for $49,000. There were no specific terms of reference for the contract, and provision was made for payments in advance as requested by the supplier. When the funds were spent, the department had to enter into a second contract for $9,800 to get the outputs not specified in the first contract, such as presentations by the supplier, documentation collected during the study, and an index and bibliography of reference material. Had these outputs been defined at the outset, either the scope of the first contract would have had to be reduced to keep the contract within the department's delegated limit of $50,000, or the contract would have had to go to Treasury Board or DSS-Supply for challenge and approval.

- A four-month sole source contract was awarded for $25,000. Tenders were not sought because of the "urgency" of the requirement, which was "to give advice and assistance". The contract did not specify milestones or outputs. To meet the "urgent" requirement, five contract amendments were let for "reasons of additional research" which extended the contract over a full year and brought the fees to a total of $47,500.

- A 15-month contract was let for $24,975 to provide administrative assistance. After 10 months the contract limits had been reached. In some of the months, the supplier billed for 30 or 31 days even though most months have only 20 to 22 regular working days. There were no provisions in the contract to control the number of working days per month. A new contract and amendments brought this contract requirement up to 22 months and $43,000. No further overtime was recorded -- the per diem rate had been increased by 20 per cent.

Contract Splitting

3.19 Because there is less scrutiny of sole source contracts within a department's delegated authority, departments may find it convenient to "arrange" contracts to fit within their authority. The general limits within which departments have authority are shown below. Since DSS-Supply is involved in the procurement of virtually all goods, these limits apply primarily to services and those few items for which a delegated authority has been given by the Minister of Supply and Services.

Departmental Delegated Authorities

	Goods	Services	
		Non-Consulting	Consulting
Competitive	$ 100,000	$ 100,000	$ 50,000
Non-Competitive	40,000	50,000	25,000

3.20 Usually these limits can be doubled by amendment. That is, a $50,000 non-competitive, non-consulting contract can be amended for a further $50,000 and a consulting contract for $25,000 on a non-competitive basis. Therefore, if a department wants to bypass the central agency control process, it can split consulting contracts at the $25,000 level or define them as non-consulting. The difference between "consulting" and "non-consulting" is not clear, as the following definitions from the Government Contracts Regulations illustrate:

- consulting services means the provision of advice by a person who is qualified to provide that advice;
- a non-consulting service contract means an agreement for the provision of services other than consulting services ....

3.21 We analysed our sample of departmental sole source contracts and found evidence to show that departments sometimes split their requirements. This indicates that there is an inadequate challenge in departments to ensure that the intent of the Government Contracts Regulations is being met and that contracts above the dollar limits are exposed to outside review. Some examples of contract splitting follow:

- A consulting contract for $16,500 was amended to a total of $21,300. A second contract was then proposed for $57,000, for the same job. It was subsequently reduced to $50,000 and defined as "non-consulting". This kept it within departmental delegated authority. The two sole source contracts amounted to $71,300, which is well above the department's limit for single contracts.

- Two sole source contracts split the fees for one job. To clarify billing arrangements, the supplier wrote to the department: "In dividing the fees to conform to the limits of your contracts, ... we started the work ... (priced at $24,300) after having given you an estimate of $38,000 to complete the study. Your instructions were to advise you when we had spent $24,300, at which time a second contract was to be issued to cover the remainder."

- A contract for $50,000 was sent to DSS, which refused to process it. The departmental project manager then wrote to the contracting staff: "As you know, DSS is returning the original requisition .... Would you please arrange for a departmental contract ...." A series of contracts and amendments was let. One contract was for $24,999. The total value to the contractor was $47,000.

- To keep costs within departmental limits, two non-competitive contracts, totalling $43,100, were issued to a supplier. The requirement was for a display. One contract, for $22,200, provided for refurbishing and repairing the display; the next contract, for $20,900, allowed for putting it up and taking it down.

3.22 Our observations on the quality of contracting lead us to conclude that the departmental challenge process is not adequate to ensure the proper balance between the need for a reasonable amount of flexibility and the need for adequate control.

3.23 First, the departmental challenge process does not prevent contract splitting; therefore, it does not ensure that all Section 8 contracts above a department's delegated authority are exposed to central agency review. Second, it does not provide sufficient assurance that a reasonable requirement has been identified, that a qualified supplier has been selected at a fair price, and that contract planning has ensured the adequacy of contract terms for monitoring contract performance and holding the supplier accountable.

Other Compliance Issues

3.24 Whether contracts are tendered or not tendered and whether they are approved by Treasury Board, DSS-Supply or departments, we observed various inadequacies in the award and approval, administration and evaluation phases of the contracting process. For example:

- A consulting contract, including $33,600 worth of professional fees, was let by a department to "review information systems". To keep such a contract within a department's delegated authority, the Government Contracts Regulations requires that three competitive proposals be considered. In this case, only two competitive proposals were received, and there was insufficient documented evidence to show that appropriate criteria were set, both in the Invitation for Proposals and in the evaluation of the proposals. The contract did not result in the achievement of milestones and production of outputs as presented in the work statement. The contract had to be amended and extended before it could be completed to the department's satisfaction. In addition, the pre-audit function was inadequate: one invoice was paid although it indicated that work was performed before the contract was approved, and payments in the amount of $3,300 were made in excess of the authorized professional fees provided for in the contract. Furthermore, there was no documented evaluation of the contractor's performance. The department entered into a second phase of this contract that brought the total value to $73,850.

3.25 Examples like this are symptomatic of inadequate management systems and procedures. A summary of our audit findings related to compliance deficiencies is given in the table below, followed by examples of lack of compliance.

Summary of Compliance Deficiencies
(324 sample contracts)

Deficiency	Number	Per Cent of Total
• Inadequate pre-contract approval	62	19%
• Work prior to contract award	71	22%
• Inadequate authorization	75	23%
• No contract evaluation	201	62%

3.26 **Contract approval and award.** This phase is designed to ensure that contracts are issued in accordance with statutory requirements, regulations, policy directives, and internal departmental policies. Requirements for this phase are all clearly documented and provide controls to ensure that taxpayers' money is being used economically.

3.27 In 19 per cent of the cases we audited, contracts were entered into without the appropriate authority, according to the department's delegated levels of approval authority or approval and award procedures. Examples are:

- In one department, a senior review committee had responsibility for reviewing contracts and the authority to approve, amend or revoke contract proposals. However, in a sample of 15 contracts, we observed 11 instances where approvals had been given after work had begun or after the contract had been signed, or where the contract was improper or contract terms were poor.

- In another department, 11 of 42 contracts audited (26 per cent) were not approved properly. For example, the procurement chief approved contracts or amendments beyond the $15,000 limit delegated to that position.

3.28 We also found that, in 22 per cent of our sample cases, goods were received or services were rendered before a contract was awarded. For example:

- In one department, over an 18-month period $74,800, including up to $18,700 worth of travel, removal and living expenses, was charged by the contractor. The three contracts for the work were signed two months after it was completed.

- In another department, we found contracts for goods based on the suppliers' invoices -- a formal contract had not been issued before the goods were received.

- On 15 June, a supplier's invoice, covering fees and travel expenses for a consultant's European trip during the first week of June, was sent to a department. Subsequently, a director requested a $100,000 contract to begin 29 June and, on 31 August, DSS-Supply awarded the contract. However, this did not allow the department to pay for the travel expenses incurred by the contractor in the pre-contract period. A contract amendment changed the starting date to 1 June, and in February the department paid the travel expenses for 1 June to 7 June.

3.29 **Contract administration.** This phase includes following specified pre-audit steps to ensure that authorization under section 27 of the Financial Administration Act gives assurance that goods or services have been received according to the contract terms. In 23 per cent of sample cases, there was insufficient evidence to show that pre-audit steps had been taken to ensure that payment of accounts was authorized and accurate. For example:

- A standing offer was made for EDP supplies in which firm prices were quoted. These prices were changed and the changes were accepted without a contract amendment.

- In one contract, approval was given in both March and May to requisition a $4,000 cheque against the supplier's invoice. The result was a duplicate payment which took the department nine months to recover.

- A $33,400 claim for a progress payment was paid as submitted even though it included expenses that were inadequately supported by vouchers, inconsistent with the accompanying vouchers, or not allowable under the terms of the contract (such as entertainment). As well, there was an error in arithmetic. The claim had been signed off by a project officer and a DSS-Supply procurement officer, and payment was authorized by a departmental financial officer. This was the first payment claim against a $313,200 contract.

3.30 **Contract performance evaluation.** This phase is concerned with assessing the contractor's performance. It is an essential feedback to the contracting process. Errors in selecting contractors can be reduced with comprehensive information on contractor performance.

3.31 In 62 per cent of contracts we audited, there was no evidence of post-contract evaluation as suggested by government contracting guidelines. DSS-Supply does evaluations on an ad hoc, or exception, basis. Evaluations by departments are rare and are usually conducted as a result of a request by DSS-Supply or Treasury Board.

Recommendations

3.32 We have concluded that our findings represent symptoms of three fundamental deficiencies in the government contracting process.

3.33 First, departmental contracting activities are governed by a series of objectives, guidelines, regulations and circular letters issued and revised continually by Treasury Board. Although it is intended that these policies should cover the complete range of contract values, they are more appropriate for high dollar value contracting. The result is a framework that is not well suited to departmental contracting, particularly when specifications are imprecise, as in service contracting.

3.34 For example, the Government Contracts Regulations allow departments to enter into untendered contracts for consulting services up to $25,000 and non-consulting services up to $50,000 without Treasury Board approval. However, the distinction between consulting services and non-consulting services is not precise. Consequently, in some cases departments are confused by these provisions and in other cases use them to exploit the contracting process by defining a contract within their delegated authority to avoid the requirement of going to Treasury Board or DSS-Supply.

3.35 Although Treasury Board encourages post-contract evaluations, it does not specify that evaluations must be done. In addition, when a contract is approved by Treasury Board or DSS-Supply, the Treasury Board guidelines are not clear on who would be responsible for conducting the evaluation -- the central agency or the department where the contract is performed. This ambiguity allows contracting authorities to ignore the need for post-contract evaluation by passing the responsibility on to the other party.

3.36 Further, Section 8 is susceptible to abuse. For contracts under $30,000, there is no requirement to justify the selection of a supplier. On the basis of our examination, it appears that departmental contracting authorities believe that when a contract is under $30,000 there is no further need to justify and document the requirement for the contract or the selection of the supplier. This is not the intention of government policy. However, current Treasury Board guidance on what constitutes adequate justification for Section 8 contracts is not entirely satisfactory.

3.37 **Treasury Board should clarify its contracting policy directives and guidelines for contracting by departments and agencies, particularly the use of Section 8, to reduce misuse and provide for clear accountability by departmental users and contracting authorities.**

3.38 The second basic cause of inconsistent quality of contracting is that there is limited auditing of departmental contracting activity. It would be unreasonable to recommend that central agencies increase their audit staff to an appropriate level to conduct such monitoring activities. The most reasonable solution would be for departmental internal audit groups to conduct their own reviews of contracting within guidelines issued by the Office of the Comptroller General. Of the five departments we audited, one had conducted a contracting audit and another audits contracting activities as a part of its on-going audit program.

3.39 **Internal audit in each government department and agency should develop an audit program for contracting and should put more emphasis on audit of the contracting area.**

3.40 The third principal reason for the low standard of contracting by departments is that, in most of the departments audited, the contracting staff group has little influence over why, how or to whom contracts are let. Frequently, their advice is ignored and their control function overridden or avoided by departmental managers when it is convenient to do so. Consequently, the credibility and effectiveness of the contracting staff is being eroded.

3.41 **The role of contracting staff in departments and agencies should be strengthened and should receive support from senior management.**

MANAGEMENT OF OVERTIME

MANAGEMENT OF OVERTIME

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4

MANAGEMENT OF OVERTIME

SYNOPSIS

4.1 Overtime is rapidly becoming a way of life in government departments and agencies. In the fiscal year 1981-82, 33 per cent of federal public servants collected a total of $219 million in additional wages as compensation for overtime and took time off in lieu of payment estimated as the equivalent of a further $25 million. During the last 10 years, the ratio of overtime costs to regular salary costs has increased from 2.4 per cent to 3.7 per cent. The amounts paid to certain occupational groups were considerably higher than average. For example, within one occupational group, 92 per cent of employees claimed compensation for overtime. During the year, some public servants were paid more in overtime compensation than their regular annual salaries.

4.2 The purpose of our study was to assess the adequacy of existing policies, procedures and practices for managing overtime and to determine if these demonstrated due regard for economy and efficiency. We examined overtime management in seven organizations that account for 70 per cent of the overtime expenditures of departments and agencies.

4.3 Overtime can be the most economical way to meet various shortages in the government work force, and its judicious use should not be discouraged. When an essential post must be filled because an employee is suddenly taken ill, when there is an unexpected temporary increase in workload, or when there are brief but recurring peak workloads, overtime work by another employee may be the most expedient and economical alternative. Hiring additional full-time or even part-time staff may be more expensive because of additional recruiting, training, fringe benefits and support costs.

4.4 Generally, we found that management practices were not adequate to ensure due regard to economy and efficiency in the use of overtime. Our study revealed that improvements are needed in the areas of planning, management controls and information.

4.5 Although the Treasury Board Secretariat has responsibility for developing broad personnel policies, including overtime, the ultimate responsibility for ensuring that overtime is well managed rests with the departments. We found that there was too little commitment and support for this responsibility in departments for it to be effectively carried out and that there was a lack of policies and guidelines on how, why and when overtime should be used.

4.6 Good management of overtime requires that overtime needs be assessed, alternative methods of meeting or eliminating these needs be considered and appropriate action plans developed. We found, however, that managers tend to use overtime in reaction to circumstances where careful planning might have led to a more economical approach. Planning is restricted to the preparation of an annual budget for overtime, developed on the basis of historical data without either assessing the reasons for overtime or evaluating alternative methods of eliminating or coping with it. The limited involvement of operational managers in managing overtime results from the lack of effective accountability for overtime expenditures.

4.7 Because levels of service, work standards and other productivity measures have often not been established, it is difficult for managers to justify and monitor overtime. The necessity or urgency of working overtime is often not clear.

4.8 Few operational managers have defined their own minimum acceptable levels of service to assist them in determining whether the use of overtime is justified. Some managers consider alternatives to overtime, such as part-time help; but few, if any, carry out cost-benefit analysis of overtime compared with its alternatives.

4.9 None of the departments we reviewed had information systems sufficiently comprehensive, accurate and timely to be useful to managers in planning and monitoring overtime.

4.10 To control overtime costs, departments should give more importance and visibility to managing overtime. This would include developing appropriate policies to define when overtime should be used and establishing a monitoring and review process.

Audit Scope and Approach

4.11 We examined the management of overtime in the following seven organizations:

Agriculture
The Correctional Service
Employment and Immigration Commission
National Defence
National Revenue - Customs & Excise
Royal Canadian Mounted Police
Transport

4.12 These organizations accounted for $155 million, representing about 70 per cent of the overtime expenditures in departments and agencies during the year 1981-82, as shown in Exhibit 4.1. We did not include the Post Office because it became a Crown corporation in mid-year.

4.13 In carrying out this study, we visited locations across the country for each of the organizations. Our audit approach included interviewing managers at all levels in operations, administration and personnel and conducting audit tests on forms and records substantiating overtime expenditures and information. We reviewed the role of the Treasury Board Secretariat through an examination of collective agreements, policies and directives that have an effect on management of overtime. We also met with managers of other public sector organizations and of a number of firms in the private sector.

Audit Criteria

4.14 We assessed overtime management functions against the following criteria:

The need for overtime should be projected and plans developed for meeting it in the most economical manner.

- The need for overtime should be well defined and related to programs.
- All reasonable means of meeting or eliminating the need for overtime should be assessed.

The use of overtime should be controlled.

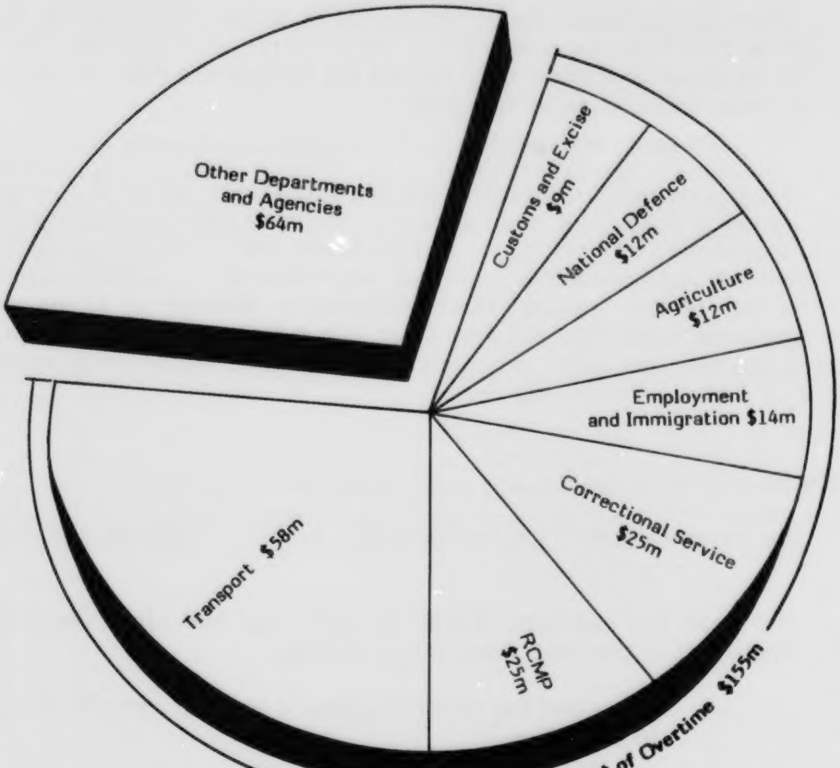
- Policies and procedures should be in place to ensure adequate authorization and reporting and to ensure that overtime is not misused.

Exhibit 4.1

MANAGEMENT OF OVERTIME

OVERTIME PAYMENTS IN DEPARTMENTS AND AGENCIES

FOR YEAR ENDED 31 MARCH 1982



Total: $219 million

- Responsibility for monitoring and authorizing overtime should be clearly assigned.

Human resource information systems should be capable of meeting the needs of overtime management.

- Appropriate information on overtime use, cost and justification should be available.

Observations and Recommendations

Introduction

4.15 Overtime represents the hours worked by an employee in excess of scheduled or normal hours of work, and hours of work performed on designated paid holidays. Public servants are compensated for their overtime work by payment or by authorized time off, often at a premium rate such as time and a half or double time.

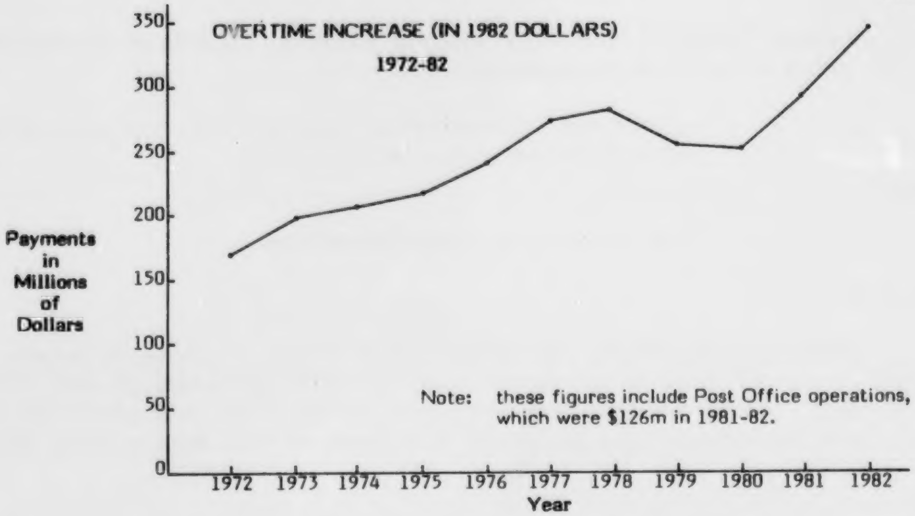
4.16 During the last 10 years, government overtime expenditures have increased both in terms of payments and as a percentage of regular salaries, as reflected in Exhibits 4.2 and 4.3. In the past year, these expenditures reached $219 million (excluding $126 million from the Post Office) and were over 3.7 per cent of regular salaries, compared with $69 million and 2.4 per cent in the fiscal year ended 31 March 1972. This increase is attributable, in part at least, to the fact that operational managers, faced with government limitations on staff growth, have reacted by increasing their use of overtime to meet program objectives and requirements.

4.17 As an alternative to cash payment, compensation for overtime worked can be taken in time off. Data from the Treasury Board Secretariat system show that in 1980-81 there were 2.1 million hours taken as leave in lieu of payments for overtime, representing $20 million.

4.18 The amount of overtime worked depends on many factors and varies considerably among departments and groups of employees. During 1980-81, approximately 33 per cent of public servants received payment for overtime. Exhibit 4.4 sets out the percentage of employees receiving payments for overtime in each major group during 1980-81 and the average overtime payment for those employees claiming overtime.

4.19 The characteristics of the work being done have a significant effect on the need for overtime within each occupational group of any given department. First, aspects such as security and urgency, inherent in jobs like those of prison guards, crime investigators and search and rescue personnel, will affect the need for overtime. Fluctuations in workload can also create a need for overtime;

Exhibit 4.2



Note: these figures include Post Office operations, which were $126m in 1981-82.

Exhibit 4.3

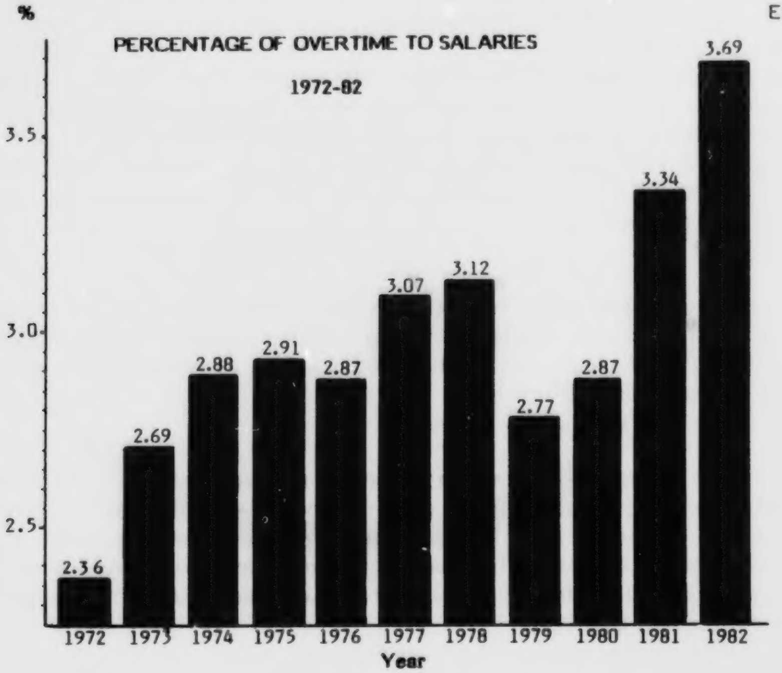
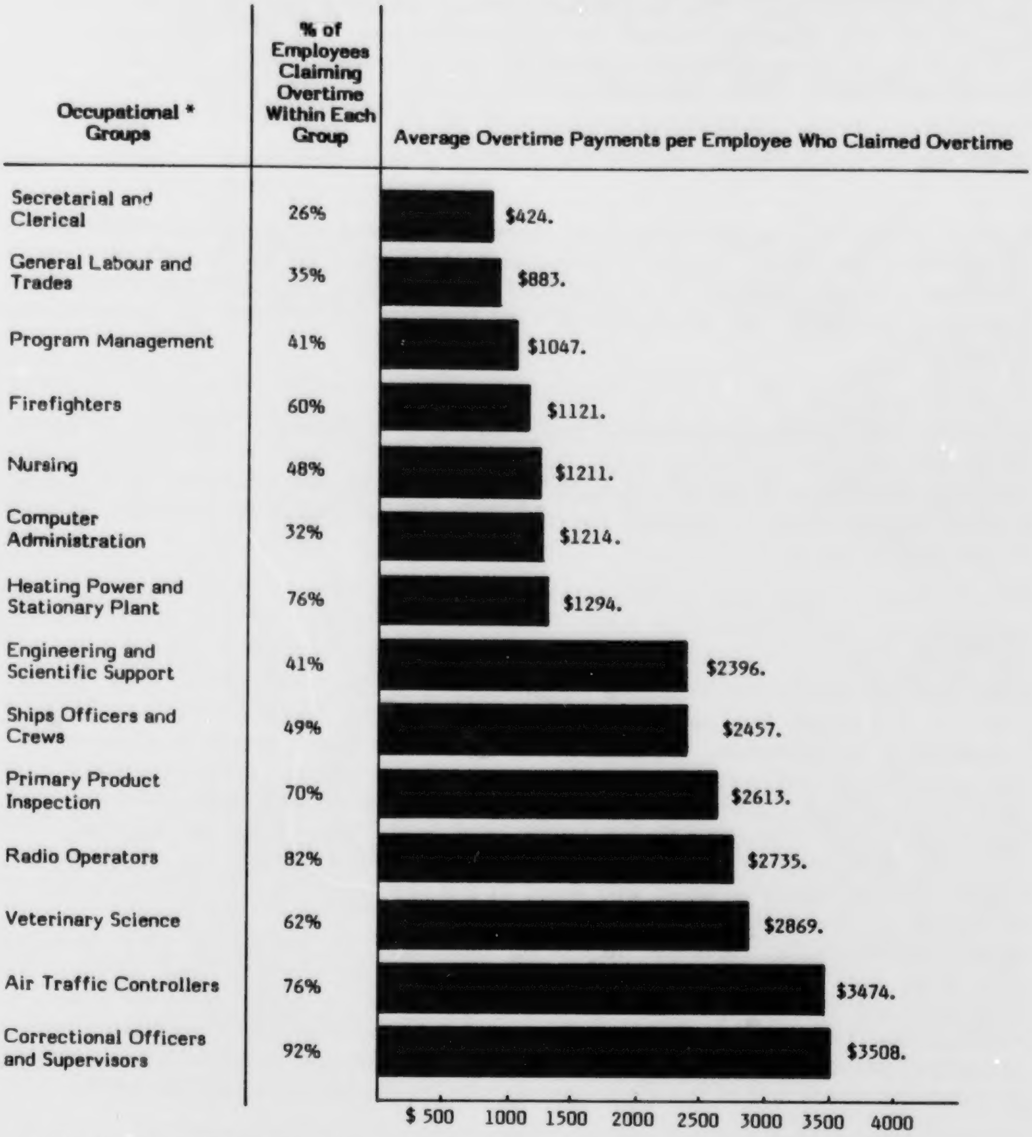


Exhibit 4.4

MANAGEMENT OF OVERTIME

AVERAGE INDIVIDUAL OVERTIME PAYMENTS FOR MAJOR OCCUPATIONAL GROUPS

YEAR ENDED 31 MARCH 1981 • SOURCE: ALOSS



* Bargaining units for public service collective agreements

seasonal peaks, for example, can be met this way instead of increasing the labour force for the full year. The employees themselves are a key factor; the level of experience and training needed for a specific task will often determine the practicality of hiring additional permanent or temporary staff. The attitude of employees toward leave benefits and overtime can also affect the level of overtime. Finally, operational modes, such as shiftwork, timing of service and indivisibility of the job, will influence the need for overtime.

4.20 We further recognize that there is overtime worked at all levels in the government, especially at the management level, that is not specifically compensated or even reported. Our study did not cover this unrecorded and voluntary overtime, although we acknowledge the benefits it confers on government operations.

4.21 Our examination of the management of overtime in the seven organizations covered the following main aspects: planning, operational management, management controls and information. We also reviewed the role of the Treasury Board Secretariat in managing overtime. Each of these is discussed in the sections that follow.

Planning

4.22 Determining overtime requirements is the responsibility of departments. A budget for overtime is included in the Main Estimates material prepared by departments. We observed that, in most cases, resource requirements for overtime, as reflected in annual budgets, are developed from historical data with an increment for salary increases. Once a department's resources have been approved by the Treasury Board Secretariat and Parliament, an allocation of overtime resources is made to responsibility centres within the organization, based again primarily on what was spent in the previous year. Overtime is one of a number of elements included in the line object "Salaries and wages", regular salaries representing the major part of it. Generally, as long as the total resource allocation for salaries and wages was not exceeded, there was neither the incentive nor the requirement for local managers to apply specific overtime management techniques. Although this may be a practical approach from a purely budgeting point of view, proper management of overtime requires an assessment of overtime needs and of the most appropriate method of meeting such needs.

4.23 **Analysis of causes.** In general, managers are aware of the causes of overtime but, because of inadequate reporting, do not know the degree to which each cause contributes to the expenditures within each program. If the reasons for the previous year's overtime expenditures are not available, it is difficult to identify what the next year's requirements are likely to be and plan how best to meet them. Through our study, we identified the following major reasons for the use of overtime:

- workload factors -- emergencies, backlogs, additional services, maintenance of perceived levels of service or fluctuations in workload;
- absenteeism of other employees -- sick leave, vacation, training or other types of leave;
- staff shortages -- limited authorized person-years or delays in filling vacancies; and
- non-discretionary -- such as statutory holidays that must be worked and built-in overtime in shift work such as that necessary to give 24-hour-a-day service with 7 1/2-hour shifts.

4.24 Some departments also rely on the use of overtime as a way to increase the efficient utilization of capital assets, such as facilities and equipment. For example, to optimize the use of a vessel and economize on fuel while on a voyage, overtime can be worked to accomplish more work when the weather permits and to achieve an efficient sailing schedule.

4.25 Planning for overtime should start with a thorough analysis of the reasons for its use, but the data base of past usage necessary for such an analysis has not been developed in any of the departments studied. Overtime should be justified in relation to its causes, and the overtime budget rationalized on the same basis, especially at the operational level.

4.26 **Action plans.** We noticed that local managers have a tendency to use overtime as an immediate answer to pressure for service instead of preparing action plans to meet temporary human resource requirements. Many managers believe that they are using overtime mostly in circumstances, such as emergencies and temporary manpower shortages, that cannot be planned for in any way. We observed, however, that most of the circumstances requiring overtime are predictable in nature, and often even the timing can be foreseen. Once the circumstances and reasons for additional human resource requirements have been analysed, all reasonable means to meet these requirements should be evaluated, including overtime.

4.27 Some operational managers have considered and used alternatives to overtime either because of concern expressed by headquarters or regional offices or on their own initiative. Some of the alternatives used include:

- hiring part-time or temporary staff through summer student employment programs or from a list of qualified persons such as retired employees;
- hiring regular staff after the allotment of additional person-years;

- contracting excess workload to the private sector;
- transferring and pooling staff or transferring work to other work units; and
- reducing services by eliminating or delaying tasks.

4.28 Decisions to use overtime instead of its alternatives have not been supported by cost-benefit analysis. Two departments have recently developed some guidelines on the use of overtime, one in a discussion paper to support an eventual overtime policy and another in a study report. But even these efforts do not include any attempt to quantify the reasons for overtime or to evaluate alternatives. We believe a thorough evaluation should include direct expenditures, such as salary and payments at time and a half or double time, plus meal allowance, fringe benefits and leave package, cost of training, supervision and recruiting, and income tax implications. It should also reflect the capital expenditures needed for the respective options; for example, office space or equipment. Furthermore, the impact of excessive or prolonged overtime on the employee's productivity should be part of the overall evaluation. Within this analysis, the benefits, which can be difficult to quantify, must also be considered. The benefits most often referred to by local managers are the flexibility overtime provides for dealing with workload fluctuations and its speed in meeting emergencies or unexpected needs. From such analyses, and with the program objectives in mind, management can determine action plans for the economical and efficient use of overtime.

4.29 **Departments should project the nature and extent of the overtime that is likely to be required, and, where overtime represents a significant cost, analyse the causes of the need for overtime and evaluate all reasonable alternative means of meeting the requirements.**

Operational Management

4.30 We considered the actions of operational managers in their day-by-day decisions to incur overtime expenditures. Supervisory personnel charged with authorizing the use of overtime normally perceive their performance to be judged more on the basis of their ability to provide an acceptable level of service than on their ability to control overtime. Thus, because these managers are not generally accountable for overtime use, providing the level of service will take precedence over limiting the use of overtime. However, if clear and consistent guidelines concerning operational priorities were provided, it would be easier for managers, who have limited resources available, to solve the problem of coping with pressure for services.

4.31 **Levels of service.** To develop operational plans and provide guidance on the management of overtime, it is essential to determine the levels of service required. If there is no such norm, local managers may authorize overtime to meet any pressure for extra work. We realize that some departments have made efforts to provide this guidance in recent years. For example, one department has established a level of service in terms of the allowable number of days of backlog in completion of certain files. The manager thus has to monitor the backlog and can opt for overtime whenever the available regular time is not sufficient to meet the pre-determined level of service. One department has considered reducing the level of service under certain conditions rather than using excessive overtime. Such a guideline would provide discretion in the use of overtime while maintaining a minimum acceptable level of service. In these ways, the level of service becomes a means of justifying overtime use. If this method is to be effective, its application must be specific, consistent and practical. Generally speaking, we found that departments have not set levels of service in a manner that would help to justify and control the use of overtime.

4.32 When minimum acceptable levels of service have not been established, use of overtime is often based on ad hoc decisions that raise questions about the necessity or urgency of working overtime in some circumstances. For example, we noted that overtime had, on occasion, been incurred to shine brass, clean pots, plant flowers or carry out routine maintenance although there was no evidence that these tasks had to be done during overtime hours to meet acceptable levels of service.

4.33 **Departments should set minimum acceptable levels of service as a guide to indicate when overtime could be used to maintain that level of service.**

4.34 **Efficiency.** We considered the problem of overtime being authorized because the amount of work to be done by a unit is thought to be too much to do in regular hours. To be able to assess whether excess work could be done during regular hours or, if not, how many overtime hours are needed, requires the development of work standards or other productivity measures.

4.35 The general lack of work standards and other productivity measures that we observed in departments is not conducive to good management of overtime. This weakness reduces managers' ability to isolate efficiency problems and also to achieve and monitor efficient use of overtime. To support decisions on overtime use, managers should first establish, through the use of work standards where applicable, whether staff numbers are appropriate in relation to work requirements and whether the work could be done during regular hours without overtime.

4.36 In some cases, overtime can have either a positive or a negative effect on productivity that should be considered when preparing work schedules and allocating the overtime work among staff. If excessive overtime causes fatigue, productivity in overtime hours is likely to be lower than usual; overtime can also affect productivity during the work periods preceding and following it. On the other hand, there can be an increase in productivity if, for example, there are fewer interruptions outside regular office hours. In assessing the impact on productivity, other factors must also be considered, such as:

- timing -- overtime hours worked as an extension of a regular work period or on a day of rest;
- quantity -- amount of overtime within a given period; and
- supervision -- extent of supervision during overtime hours compared to regular hours.

4.37 Despite the different effects that overtime can have on productivity and the concerns expressed by many managers interviewed, departments have not tried to assess the efficiency of overtime work. In the only department where some related information was available, we observed that, for all regions, employees' measured output per productive hour was at its highest level during the months of high overtime; yet that department had not carried out any further analysis of this information to determine the potential effect of overtime work on overall efficiency.

4.38 **Absenteeism.** Ultimately, overtime expenditures must be managed at the operational level. Therefore, the attitude of managers becomes an important factor. Generally, we observed that operational managers, who initially authorize overtime, consider management of overtime a low priority and, as a result, have done little to control these expenditures and implement remedial action where problems are identified. As an example, it is well known that absenteeism can be costly to any organization and that one of the reasons for this is that the overtime work required to replace absent employees is paid for at time and a half or double time.

4.39 Absenteeism caused by sick leave is a significant cause of overtime for many of the departments included in our study: it frequently happens that an employee calls in sick just before his scheduled work period, and his supervisor has to find a replacement at overtime rates. Although abuses of sick leave are suspected by local managers, little has been done to control it. For example, we found a case where an employee called in sick for his regular day shift but worked the evening shift of the same day at the overtime rate. Our tests revealed some sick leave patterns, such as high levels of sick leave on the first or last day of a work period. Even when this affects overtime expenditures, managers very often consider it cannot be changed and make no effort to prevent such situations and consequently reduce overtime.

4.40 Our discussions with managers revealed that such sick leave problems are generally not dealt with because control measures would be unpopular with staff, who consider sick leave benefits as a right rather than a privilege. The local managers also suspect that such actions would result in little, if any, recognition by higher management.

4.41 For some groups of public servants, we observed that the opportunity, through working overtime, to get more pay for the same work may be contributing to absenteeism, which in turn extends the need for overtime. Recent increases in fringe benefits such as paid sick leave -- especially uncertified sick leave -- and family leave have tended to aggravate the problem. Employees can increase their take-home pay without changing their total hours worked by taking all the various types of leave they are entitled to under their agreements and then working overtime at the higher rate to meet the work requirements.

4.42 **Allocation of overtime work.** Generally, managers interviewed were aiming for an equitable allocation of overtime among applicable employees. Some of them have even established local procedures to ensure fair allocation and to avoid, as far as possible, grievances about it from employees. Nevertheless, we believe that more management involvement is needed to review and question the validity and necessity of overtime worked by certain individuals, especially the high users.

4.43 Our survey of overtime payments in the seven organizations covered by our study for the period of nine months ended 31 December 1981, as depicted in Exhibit 4.5, shows that 926 employees were paid more than $10,000 each in overtime for that period; the highest amount paid was $33,000. Some employees were paid more than their base salaries in overtime. We did not find that it was normal practice for the departments to study or identify the circumstances behind such high payments. Some individual payments were for more than 50 hours of overtime in a single week. It is likely that in some of these cases, where so many hours of overtime are involved, there may be problems such as a lack of quality in the service rendered, health hazards for employees and abuse of the system. For example, we found a case where an employee was working a significant amount of overtime with no on-site supervision; we questioned the validity of the unusually high payment made to this employee and found that the immediate supervisor was aware that some of the overtime claimed had not been worked but nevertheless authorized payment for it. This case is being followed up by the organization concerned.

4.44 Another area that managers should monitor, especially in some employee groups, is the distribution of overtime paid at time and a half and double time. Review of statistics show that some groups appear to abuse the system by making themselves available for overtime work mainly during periods when the double rate is applicable. In 1980-81, employees within a group in our study claimed 79 per cent of their overtime at the double-time rate, which applies on the second day of rest. Modifications in this group's collective agreement finalized in May 1982 will presumably correct this situation. Discussions with the operational managers concerned revealed that, in many cases, long-standing practices made it difficult to introduce controls and restrictive measures to correct abuses such as these. Nevertheless, we believe that attempts should be made to minimize it.

Exhibit 4.5

MANAGEMENT OF OVERTIME

NUMBER OF EMPLOYEES RECEIVING OVERTIME PAYMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 1981

Entities	Person/years Authorized for 1981/82	Number of Employees Receiving Overtime Payments			
		From: $ 0 To: $ 5,000.	$ 5,001. $ 10,000.	$ 10,001. $ 15,000.	over $ 15,000.
Agriculture	11,435	4,646	234	14	2
Correctional Service	9,795	7,077	657	79	19
Customs and Excise	10,147	6,160	66	6	1
Employment and Immigration	24,121	17,421	109	9	1
National Defence	36,744	16,042	113	10	-
Royal Canadian Mounted Police	20,547	← 14,400 * →		25	1
Transport	21,706	14,097	2,152	568	191

* Estimate

4.45 **Assignment of responsibility.** To obtain the necessary involvement from managers to control overtime and its causes, it is important to assign these responsibilities clearly and to raise the visibility of overtime management. This could be done through departmental guidelines for overtime management, proper recognition of the manager's responsibilities in overtime control, and support of cost-conscious attitudes toward using overtime through policies that enhance accountability.

4.46 Operational managers should place greater stress on the management of overtime and be required to exercise greater control over areas such as absenteeism, the use of double time and excessive overtime work by individuals.

Management Controls

4.47 **Policies and guidelines.** The control of overtime, as of any function or activity, starts with formulating policies and guidelines. We found that, generally, policies and guidelines concerning financial controls for overtime, such as instructions on the pay process, forms to be used and assignment of responsibilities, are satisfactory.

4.48 However, there are few departmental policies and guidelines on how, why and when overtime should be used. The need we have already noted for improvements in the areas of planning, analysis of overtime needs and assessment of overtime and its alternatives is related to this lack of direction. Policies and guidelines in these areas could provide needed guidance and support from headquarters and stress the importance of managing this human resource.

4.49 Departmental policies on overtime should include requirements that local managers consider overtime use in relation to all suitable alternatives during planning and operation.

4.50 **Authorization.** In examining this control aspect, we considered the pre- and post-authorization of overtime. Pre-authorization implies that human resource requirements have been analysed and a decision made that overtime is justifiable. It also involves selecting an employee and estimating the time needed for the task. We noted that only one of the organizations surveyed had consistently documented overtime pre-authorizations. In the other organizations, there is little evidence that this control procedure is being followed and that local managers are appropriately involved in authorizing overtime expenditures before they occur.

4.51 We examined post-authorization of overtime to review compliance with sections 26 and 27 of the Financial Administration Act and to assess its effectiveness in terms of managing overtime. Generally, we found that post-authorization was properly done except in a few cases where pay documents had been certified by clerical staff who did not have the necessary authority or by staff who had the authority but were not in a position to know whether the work was done. We also found a few cases of employees certifying their own overtime.

4.52 In our review of the authorization process, we examined overtime claim forms and the reasons given for overtime. In only two of the seven entities were the reasons for overtime generally stated. In four other entities we found that the reporting of reasons for overtime was inconsistent; some locations were not reporting them or reporting them irregularly. In one organization surveyed, no reasons were ever cited. The requirement to state the reason for overtime can be a critical control feature that permits local managers to monitor overtime and assess the need for the overtime worked; it can also provide necessary data for planning the use of this resource.

4.53 **Departments should enforce existing requirements to document the pre-authorization of overtime and should state the reasons for overtime on claim forms. They should monitor the effectiveness of these procedures.**

4.54 **Accuracy.** In each organization in our study, we carried out a series of audit tests on the calculations of overtime compensation. We were generally satisfied with the accuracy and the compliance with collective agreements. We found few clerical errors. The errors we found were miscalculations, such as using the wrong overtime rate, miscalculating the number of hours worked, or making double payments for the same overtime hours. We observed that there were generally no formal review or control procedures for detailed overtime calculations, and the acceptable level of accuracy found was due to the awareness and meticulousness of individual pay clerks.

4.55 In reviewing clerical procedures, we also considered compliance with Treasury Board circulars 1977-37 and 1979-35, which delineate departmental responsibility for pay administration. In particular, departments are responsible for the accuracy and validity of pay input data to the Department of Supply and Services - Services Administration (DSS), ensuring that the pay administration system meets prescribed Treasury Board standards of performance, controlling batches of pay input documents and correcting input errors or anomalies detected by DSS.

4.56 We found several instances where Treasury Board directives were not being followed. For example, a required system of batch control for overtime pay claims sent to DSS was frequently not in place or was ineffective. We also observed some cases where overtime paycheques were distributed by the same staff involved in earlier stages of the pay process.

4.57 **Departments should ensure that their overtime pay process complies with Treasury Board directives.**

4.58 Compensatory time off. Public servants, under most collective agreements, can elect to be compensated for their overtime work by taking authorized time off during a period that is convenient to both employee and employer. Compensatory time off, however, can have a snowball effect if it creates the need for overtime that in turn will be compensated by more time off (at the premium rate of time and a half or double time), which will cause even more overtime.

4.59 Operational managers are generally aware and concerned about the possibility that this might happen. Some managers have developed local directives limiting the amount of time off that can be taken or stating that compensatory time off should not be granted if it will affect the operation or create the need for additional overtime. There is, however, generally no provision for monitoring compliance with these directives. We found several cases where compensatory time off had caused overtime.

4.60 We also found that records on the overtime compensation earned, to be taken in future time off, were kept locally in the departments and were not used by departments to evaluate the unrecorded liability for overtime work or to assist in planning for eventual leave. Two of the organizations surveyed could provide estimates of the amount of the contingencies for overtime at 31 March 1982. One estimate amounted to $4.0 million, or 7 per cent of the organization's current year's reported overtime expenditures, and the other was $4.2 million, or 17 per cent of that organization's overtime expenditures. Even though these contingencies are not significant in relation to the overall expenditures of the organizations, they could have an impact on the operations of some locations and thus should be considered, at least for planning purposes.

4.61 Departments should develop guidelines to assist local managers in controlling the use of compensatory time off and monitoring its effect on operations and on the need for additional overtime.

Information

4.62 A certain amount of overtime will always be necessary in any department, and appropriate information is needed by management to ensure that it is used in the most economical manner. In several previous annual Reports, we have commented on the proliferation and inadequacy of human resource information systems. These problems were evident again in this study.

4.63 Central information system. We reviewed overtime data for the fiscal year 1980-81 produced by the Treasury Board Secretariat's Attendance/Leave/Overtime and Shiftwork System (ALOSS). The system's main purpose is to provide the Secretariat with data on attendance, leave, overtime and other benefits in support of the collective bargaining process. It also provides the data base necessary for determining and monitoring employee benefits policies. Although the ALOSS system is used mainly by the Secretariat it can also provide information on request to departments.

4.64 We found material differences between the overtime payments reported in this system and those recorded through the pay system. For example, for the department where we found the largest differences, payment for overtime according to ALOSS data amounted to $20.4 million in 1980-81; the department had $46 million in its pay records. Neither the Treasury Board Secretariat nor any department has completed a reconciliation of the information coming from the different systems.

4.65 Some of the reasons for the differences are known by the Treasury Board Secretariat and the departments. They include incomplete input data being provided to ALOSS and other input data being rejected but not fully followed up. ALOSS is seldom used by departments because the reports are regarded as unreliable and untimely. The information is produced only annually and is not made available until six months after year-end. Some of the users within the Treasury Board Secretariat also expressed reservations about the adequacy and timeliness of the information extracted from ALOSS.

4.66 Despite the many reviews of this system and the Secretariat's awareness of its deficiencies, the problems remain. The review of ALOSS completed in June 1982 by the Personnel Policy Branch of the Treasury Board Secretariat identified problems such as the complexity and inflexibility of the system and the forms used, the lack of reliability and timeliness of the information, and the extra workload imposed on departments, which often represents a duplication in preparation of data. The report concluded that "a system to replace ALOSS (or a major upgrade) should be implemented as soon as it is determined feasible."

4.67 **Treasury Board Secretariat should ensure that any changes to ALOSS take into account the need for providing adequate information to departments for managing overtime.**

4.68 **Departmental information systems.** Expenditures on overtime are reported to departments in the financial information produced by DSS. This type of information can assist in budgetary control but does not provide the complete and comprehensive information needed to manage overtime. This system does not produce any information on overtime hours worked and applicable rates (straight time, time and a half, double time), timing (extensions of regular work period, first or second day of rest, statutory holiday) or reasons for the overtime. Finally, overtime compensated for by time off is not part of the data base of the system.

4.69 Two of the seven departments studied have developed their own computerized personnel information systems that provide information on overtime similar to that provided by ALOSS. Although one of the systems has partly solved the problems found in ALOSS, the other was criticized by users because it was not timely or accurate and, for these reasons, was being redeveloped by the department concerned. The users of the systems still did not receive a full information package for managing overtime; the systems did not provide any information on the timing and reasons for overtime, and thus assessments could not be made of when, how and why overtime is used.

4.70 Departments should provide relevant information on overtime use to managers at all levels.

Role of Treasury Board Secretariat

4.71 The management of overtime and its implications for pay administration are, as discussed previously, primarily the responsibility of departments. The Services Administration of DSS is responsible for operating the pay system for public servants which produces cheques for overtime payments, and for recording the amounts in the accounts of the government. We did not review the pay process in DSS in this study.

4.72 The Treasury Board Secretariat is involved in managing overtime through setting government-wide personnel policies, negotiating public service collective agreements and gathering statistics on overtime within ALOSS.

4.73 **Policies.** The Treasury Board Secretariat has not taken an active part in managing overtime by issuing specific policies and guidelines. To date, the Secretariat has issued only one directive on overtime, in 1972 (circular 1972-14), which restricts the number of hours that may be worked by an employee to a maximum of 48 hours in any one week, as specified in the Canada Labour Code.

4.74 Nevertheless, the Secretariat has shown some concern about this matter and has recently carried out a study on overtime in government. Using this study, the Secretariat intends to assess the status of the management of overtime in government and determine its own role in terms of setting policies and guidelines.

4.75 The lack of effective accountability for overtime costs and the lack of importance attached to its management appear to be the fundamental causes of the overtime problems we observed. Although the main responsibilities rest with departments, management of overtime should be supported and reinforced by central agency directives and guidelines in areas such as:

- planning and budgeting for overtime;

- assessing the need for overtime and alternative means of dealing with it;
- establishing accountability for managing overtime; and
- monitoring overtime.

4.76 Treasury Board Secretariat should review its role in providing guidance and assistance to departments on overtime management.

4.77 **Collective agreement negotiations.** In negotiating collective agreements, the Treasury Board Secretariat's Staff Relations and Compensation Division assess the cost of overtime as part of the compensation package paid to government employees. This package is evaluated and costed for each employee group to compare compensation in government with that paid to equivalent employee groups outside government. The overtime information is gathered from many sources, but it is principally produced from data supplied by ALOSS.

4.78 Departments are invited by the Treasury Board Secretariat, as part of the negotiation process, to provide any comments or suggestions that would assist in developing management proposals. However, the Secretariat does not specifically request from departments the type of information required to evaluate the impact of proposed changes in benefits on resourcing in general and the need for overtime in particular.

4.79 Once a settlement is achieved with an employee group, a final costing is prepared by the Treasury Board Secretariat to establish the overall value of the negotiated compensation package. However, this analysis does not specifically assess the extent to which a change in benefits affects the need for overtime. For example, the recent granting of five annual days of "family related responsibility leave" in certain contracts has resulted in an increased demand for manpower. At the time of negotiation, the impact of this clause on operations and overtime needs had not been evaluated.

4.80 To assess the effect of changes in benefits on human resource requirements and assess fully the cost of collective agreements, the Treasury Board Secretariat should estimate the effect such changes will have on resourcing of operations, particularly in cases where greater benefits will increase the need for either overtime or authorized person-years.

PERFORMANCE REVIEW AND EMPLOYEE APPRAISAL

PERFORMANCE REVIEW AND EMPLOYEE APPRAISAL

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5

PERFORMANCE REVIEW AND EMPLOYEE APPRAISAL

SYNOPSIS

5.1 In this period of economic restraint, it is important that managers do everything possible to assist employees in developing their on-the-job skills and enhancing their productivity. The performance review and employee appraisal process is an important tool which can assist managers in this task.

5.2 A number of recent studies have pointed to the importance of the performance review and employee appraisal process in the overall management of human resources in the public service. The Royal Commission on Financial Management and Accountability stated that "... performance appraisals must be of highest quality and prepared with the greatest degree of objectivity and integrity."

5.3 Similarly, the Special Committee on Personnel Management and the Merit Principle noted that, "without the development of effective review and appraisal mechanisms, managers cannot meaningfully account for the management of human resources."

5.4 In our 1981 Report, we noted that our comprehensive audits had revealed that the processes for identifying training needs and planning human resources, as well as the related aspects of performance appraisal systems, were not functioning adequately. Accordingly, this year we examined departmental performance review and employee appraisal systems to determine the extent to which they reflect sound management practices and are accomplishing the purposes for which they were established.

5.5 Performance appraisal systems have existed in the Canadian public service for many years. In the past thirty years, evaluation techniques have changed from check lists measuring behaviour on the job and personality traits to results-oriented approaches, measured through the use of performance standards, goals and objectives. Some of these changes are still taking place as both government departments and corporations in the private sector search for better systems. Of the seven departments audited, all have made changes to their performance review and appraisal systems in the past few years, and three have implemented or are in the process of implementing major modifications which we believe will result in more effective systems.

5.6 The Treasury Board published the first government-wide policy on performance review and employee appraisal in 1979 and is planning to evaluate the policy and make minor revisions to it in 1982. In a recent letter to the deputy heads of departments and agencies, the Secretary of the Treasury Board emphasized the importance of performance review and appraisal in the management of human resources with particular reference to the new management category.

5.7 Our findings reveal that present performance review and employee appraisal practices in the public service are not perceived as fully accomplishing their intended purposes. All departments audited have policies, forms and procedures in place, and some have devoted considerable effort over the past few years to ensure that their systems comply with the Treasury Board policy. Nevertheless, the credibility of performance review and employee appraisal in the public service is questionable; a considerable number of employees are critical about the uses and value of the process.

5.8 Employees want to know what is expected of them and how well they are doing in their jobs; however, the present systems do not adequately provide this kind of feedback. This is of concern in view of the fact that the primary purpose of performance review and employee appraisal is to help employees to improve their job performance and develop their skills through ongoing discussions about the work expected and the results accomplished. It is significant that over one-half of the public servants surveyed during this audit said that they did not receive enough information from their supervisors about their performance. It is equally significant that 64 per cent stated that the performance review and employee appraisal process has little or no effect on the way they do their jobs.

5.9 We found that many managers view the performance review and employee appraisal process as a once-a-year "personnel" event rather than as an integral part of their continuing management function. A number of managers in each of the departments audited also question whether they have the required knowledge and skills to carry out effectively the performance review and employee appraisal process.

5.10 Departments are generally not using the information captured in the performance review and employee appraisal reports for many of the purposes stated or implied in departmental policies. Some departments are making serious attempts to make better use of the information; however, we found many examples of appraisal reports filed and not used beyond the discussion between the manager and subordinate. We recognize that the appraisal report serves as an important framework for such discussions. Nevertheless, the fact that employees perceive that the appraisal information is seldom used may be a contributing factor to the critical views referred to earlier.

5.11 These findings lead us to conclude that there are serious gaps in the extent and quality of communication between supervisory personnel and their subordinates about performance related matters. This raises a significant question. Why do supervisory personnel fail to fulfil this basic management responsibility? We suggest they do so because it is a task that requires some very specialized skills and a considerable amount of tact and empathy, and because managers view the process as a paper work exercise with few visible benefits. What is needed is a greater emphasis on the importance of performance review and employee appraisal as a management tool and on ensuring that supervisory personnel possess the necessary skills to help carry out this difficult part of their job.

5.12 We recognize that there is no perfect employee appraisal and performance review system; indeed, there are no easy or quick solutions to many of the problems noted during this audit. Nevertheless, we have made a number of proposals which we believe should help make the performance review and employee appraisal process in the public service more responsive to both departmental and employee needs.

5.13 The proposals are directed at ensuring better communication with all employees concerning the nature and purpose of performance review and employee appraisal; more effective discussions of job expectations and job performance; closer relationships of stated intentions to the actual uses of appraisal information; and greater awareness of how well the performance review and employee appraisal processes are operating.

Audit Scope and Methodology

5.14 The scope and methodology of this audit included a survey of performance appraisal systems used in other sectors, a review of relevant policy activities of the Treasury Board Secretariat, an examination of the systems in seven departments and the use of a survey questionnaire.

5.15 **Survey of other sectors.** We examined the performance review and employee appraisal processes in one provincial government and 10 private sector organizations representing a variety of performance review and employee appraisal practices from different sectors of the economy. We used the findings from this survey in our overall assessment of the performance review and employee appraisal systems in the public service.

5.16 **Treasury Board Secretariat.** We examined the management controls in the Treasury Board Secretariat as they relate to developing, implementing, monitoring and evaluating government-wide policies and systems for performance review and employee appraisal. We also reviewed related activities in the Public Service Commission performed on behalf of the Treasury Board Secretariat.

5.17 **Departmental audits.** We conducted a review of performance review and employee appraisal systems in the following organizations:

- Agriculture Canada;
- Canada Employment and Immigration Commission;
- Energy, Mines and Resources Canada;
- National Health and Welfare;
- Indian Affairs and Northern Development Canada;
- Labour Canada; and
- Transport Canada.

5.18 We examined the systems in place to review and appraise employee performance, including communications to employees about performance review and employee appraisal, the use of job-related performance criteria, the overall quality and uses of appraisal information and the monitoring and evaluation activities. We interviewed personnel specialists and line managers at departmental headquarters and in a minimum of two regional offices per department. We also examined approximately 1,500 appraisal forms to determine the overall level of quality of the reports. The sample was selected to ensure adequate representation of the overall population.

5.19 **Survey questionnaire.** To obtain the perceptions of both supervisory and non-supervisory staff about the performance review and employee appraisal process, we used a confidential performance review and employee appraisal questionnaire. The questionnaire was sent to 4,657 public servants in the seven departments audited.

5.20 We selected these employees by taking a sample in each of the seven departments using specific statistical techniques to ensure that there was no bias in our selection. The number of questionnaires distributed was based on the number necessary to ensure the required level of accuracy and on the assumption that the return rate would be between 50 and 60 per cent.

5.21 To understand fully the implications of the questionnaire findings, we also conducted over 140 personal interviews with the survey respondents. In addition, we analysed hundreds of comments about the performance review and employee appraisal process submitted by employees on their questionnaires.

5.22 The response rate to the questionnaire was 68 per cent which, together with the volume of comments submitted to us, indicates that the subject of performance review and appraisal is of great interest to public servants across the country.

5.23 The majority of questionnaire responses are reported as percentages of replies to specific questions. Where there were differences between groups or categories in their response to a question, we used statistical techniques to determine whether the differences were significant. We also analysed the degree of association between the answers to related questions. The survey data were weighted to correct for the relative size of the department concerned.

5.24 There was a good deal of commonality in the questionnaire responses across the seven departments and between occupational categories. In the instances where there was significant variation between occupational categories, they were reported to the departments concerned.

Audit Criteria

5.25 The audit criteria against which we assessed the performance review and employee appraisal processes in the public service were developed during the audit and discussed with departments. They are generally consistent with the policy of the Treasury Board Secretariat and are based on two principles:

- The evaluation of the performance of subordinates is part of the ongoing job of a manager and is directly related to his or her responsibility for planning and controlling work.

- To do a job well, an employee should know what is expected of him or her, the extent to which performance meets expectations, and how to improve performance when required.

The objectives and principles of the performance review and employee appraisal process should be established and communicated to all employees.

- senior management should demonstrate commitment to the achievement of the performance review and employee appraisal objectives;

- roles and responsibilities for carrying out the process should be clearly defined and communicated;

- supervisory personnel should be competent in and, where necessary, receive training on how to carry out their responsibilities with respect to performance review and employee appraisal.

The review of employee performance should be based on job-related performance criteria.

- employees should be informed of their job responsibilities and of the criteria against which their performance will be assessed;

- information derived from the work planning process should be taken into account when it relates to employees' goals and their achievement;

- supervisory personnel should review and discuss performance with their subordinates periodically and, where performance is below standard, develop and implement measures to improve performance.

The review of each employee's performance should be summarized at least annually in an appraisal report.

- appraisal reports should contain the results of performance reviews, and, when required for planning, training, staffing and other administrative purposes, should include information concerning career aspirations, training and development needs and employee potential;

- the information recorded on appraisal reports should be used for purposes intended;

- appraisal reports should be reviewed by a third party for completeness, consistency and quality.

The performance review and employee appraisal process should be assessed periodically.

- compliance with policies, directives and guidelines should be monitored;
- the extent to which the objectives of performance review and employee appraisal are being met should be evaluated;
- the extent to which appraisal reports of supervisors and managers indicate that they are being held accountable for carrying out their performance review and employee appraisal responsibilities should be assessed;
- results of these assessments should be used in the development and revision of performance review and employee appraisal policies and processes.

5.26 In our audit of the management controls over the performance review and employee appraisal policies and systems of the central agencies, we used the criteria reported in Chapter 3 of our 1981 Report.

Observations and Recommendations

Central Agency Roles and Activities

5.27 **Policies and systems.** In 1979, the Treasury Board Secretariat, in consultation with departments and agencies, developed the first government-wide policy on performance review and employee appraisal. According to the policy, deputy heads of departments and agencies are responsible for developing, implementing and evaluating departmental performance review and employee appraisal programs. The policy also states that its effectiveness and implementation by departments will be subject to evaluation. At the outset of this audit, the Treasury Board Secretariat stated that it intended to carry out an evaluation in 1982, but was deferring the work until after the completion of this audit.

5.28 The policy distinguishes between performance review -- the ongoing review and feedback of employee performance -- and employee appraisal -- the written summary of the results of ongoing performance reviews and other information, such as employee potential and training and development needs.

5.29 The policy also requires that, at least once a year, supervisors in the public service prepare written reports summarizing the performance of all employees whom they supervise. Supervisors are also required to discuss the report with the employee and provide the employee with a copy of the final report. In addition, for supervisory staff, information pertinent to employee potential, training and development needs, future assignments and other career-related information must be included. According to the performance review and employee appraisal policy, the employee appraisal report is to serve as a basis for various personnel management decisions such as staffing, training and development, and human resource planning. We were informed during the audit that the Treasury Board Secretariat was in the process of making minor revisions to the policy.

5.30 The Secretary of the Treasury Board in March 1982 wrote to the deputy heads of departments and agencies emphasizing the importance of performance review and employee appraisal to the management of human resources and stating that the performance ratings of managers and the associated monetary rewards will be greatly influenced by the care and attention given to the completion of appraisals.

5.31 **Management category.** The Treasury Board Secretariat and the Public Service Commission are currently working on a wide range of issues associated with human resource management practices for the new management category. The material published by the central agencies on the new category indicates that performance review and appraisal of senior managers will be of great significance because of its impact on career decisions and on the executive compensation program which involves performance bonuses of up to 15 per cent of salary maxima.

5.32 At the time of this audit, we found that the review of existing practices and development of new approaches to performance review and appraisal for management personnel had not been completed. However, senior officers in the Public Service Commission and the Treasury Board Secretariat had clearly identified the issues to be addressed with respect to the new category. These include, among others:

- the quality of the appraisal information;
- the appropriateness of a universal evaluation/appraisal form and common evaluation/performance criteria;
- the adequacy of the training of managers in performance review and employee appraisal; and
- the accountability of managers for the conduct of performance review and employee appraisal.

5.33 We were informed that the Treasury Board planned to engage, in October 1982, an expert on performance review and employee appraisal to address these issues and develop a system appropriate to the management category.

5.34 We trust that the Public Sector Compensation Restraint Act and the resultant suspension of monetary incentives will not affect the amount of attention given to this subject, and urge the central agencies to continue their efforts to develop appropriate solutions to the identified issues.

Departmental Policies and Systems

5.35 **Application of Treasury Board policy.** There has been a considerable amount of activity in departments and agencies directed at improving performance review and employee appraisal systems since the publication in 1979 of the Treasury Board policy. Over the past three years, six of the seven departments audited have revised their policies, three have undertaken major studies, and the completion rates of appraisal reports for most departments have risen significantly, indicating the degree of attention being given to this subject.

5.36 All departments audited have developed performance review and employee appraisal policies that are generally consistent with the Treasury Board Secretariat's policy, and all require that the performance of indeterminate employees be assessed annually and documented in an appraisal report. The departmental policies and directives detail the supervisors'/managers' role in setting job expectations, conducting ongoing formal work reviews with employees and summarizing results of these assessments in an annual appraisal form.

5.37 In most decentralized departments, the headquarters personnel branch is responsible for developing the performance review and employee appraisal policy and procedures; the regional offices conduct relevant training courses and provide general support to the line branches in administering the departmental performance review and appraisal processes. The extent of regional activities varies considerably within departments, often depending on the authority delegated, the regional resources available, and on the commitment from regional senior management. We did note that, in a number of departments, the respective roles of corporate Personnel and regional Personnel were not documented.

5.38 **Communication to employees.** Deputy ministers and assistant deputy ministers in most departments express commitment to the objectives and principles of the performance review and employee appraisal process in annual memoranda to their senior staff. However, with the exception of a few departments, there is little communication to non-supervisory staff with regard to the appraisal process. As a result, many employees interviewed were unclear about the process and what it was attempting to achieve.

5.39 In one department, the deputy minister expressed strong commitment to the process in a memorandum to all staff, as well as at management committee meetings. In this department, employees were also informed about the review and appraisal process in the departmental newsletter. We found that more employees in this department, compared to employees in any of the other departments audited, believed that the performance review and employee appraisal process improves the way they do their jobs. This suggests that communication to all employees and strong, visible and continuing commitment by senior management have a significant bearing on the effectiveness of the appraisal process.

5.40 **Departments and agencies should ensure that all employees are made aware of the nature and purposes of the performance review and employee appraisal process.**

Performance Review

5.41 **Performance criteria and their communication.** Departmental policies and procedures require that supervisors inform employees of their job responsibilities and of the criteria against which their performance is being measured at the beginning of the rating period. According to our survey, we found that this occurs about 54 per cent of the time; the remainder are informed during the rating period, at the end, or, in 27 per cent of cases, not at all. In this regard, 30 per cent of the employees surveyed indicated that they were unclear about the kind of job performance expected of them during the last rating period.

5.42 Our review of appraisal reports revealed that specific performance criteria indicating the level of achievement expected in terms of quality, quantity and time were rarely used. The majority of appraisal forms contained general statements of tasks or job responsibilities, often derived from job descriptions. For senior managers, we found that goal statements derived from departmental work planning and review processes were sometimes used as performance criteria.

5.43 A significant number of employees interviewed expressed concern about performance criteria, their development, utility and application. This is consistent with the results of the survey questionnaire in that over half of the respondents who had supervisory responsibilities indicated that they needed more training in developing performance criteria. Also, 59 per cent of all employees surveyed indicated that they do not receive enough information about the criteria used to judge their work.

5.44 We recognize that there are difficulties in developing and applying common performance criteria in organizations that have many occupational groups. Nevertheless, we would encourage central agencies and departments, where practical and feasible, to develop such criteria when appraisals are to be used for management decisions such as pay administration or staffing. This should result in a greater degree of consistency in the evaluation of employees performing similar functions and is particularly relevant to employees in the new management category.

5.45 A number of employees surveyed reported that they participate with their supervisors in deciding job expectations or performance criteria or in determining the action needed to improve their performance. Of the employees who participated, a much greater proportion stated that the appraisal process has a positive effect on their work than was the case where employees do not participate in these activities. Our review of performance review and employee appraisal in the private sector shows a tendency for greater involvement of subordinates in all aspects of the process, particularly in the areas of criteria and goal setting, than is the case in most of the seven government departments audited. These matters related to performance criteria are addressed later under Training of Supervisory Personnel.

5.46 **Ongoing review and employee feedback.** All departments audited emphasize the importance of feedback and require that supervisors/managers conduct ongoing assessments of employee performance and that these assessments be discussed with employees throughout the year. In this regard, our interviews overwhelmingly indicated that employees want feedback from their superiors on how well they are performing and feel that such feedback has a positive effect on their work performance. Nevertheless, many employees at all levels stated during our interviews that they receive insufficient communication from their superiors about their performance or about ways to improve it. In many instances, employees stated that they require more ongoing feedback throughout the year rather than only at appraisal time. The questionnaire responses confirmed these concerns and showed that:

- 68 per cent of employees say that supervisors discuss performance only at time of appraisal or not at ail;
- 39 per cent of employees who did discuss the appraisal document with their supervisor spent 15 minutes or less in discussion;
- 65 per cent of employees feel they do not receive enough information about specific ways to improve their performance; and
- 68 per cent of employees believe that the performance review and employee appraisal process has little or no effect on the way they do their jobs.

5.47 These concerns were expressed in each of the seven departments audited, as illustrated in Exhibits 5.1 and 5.2.

5.48 These findings suggest that over one-half of public servants probably do not receive sufficient communication from their supervisors about their performance -- a serious gap in light of departmental policies and the importance of ongoing feedback to employee morale and productivity.

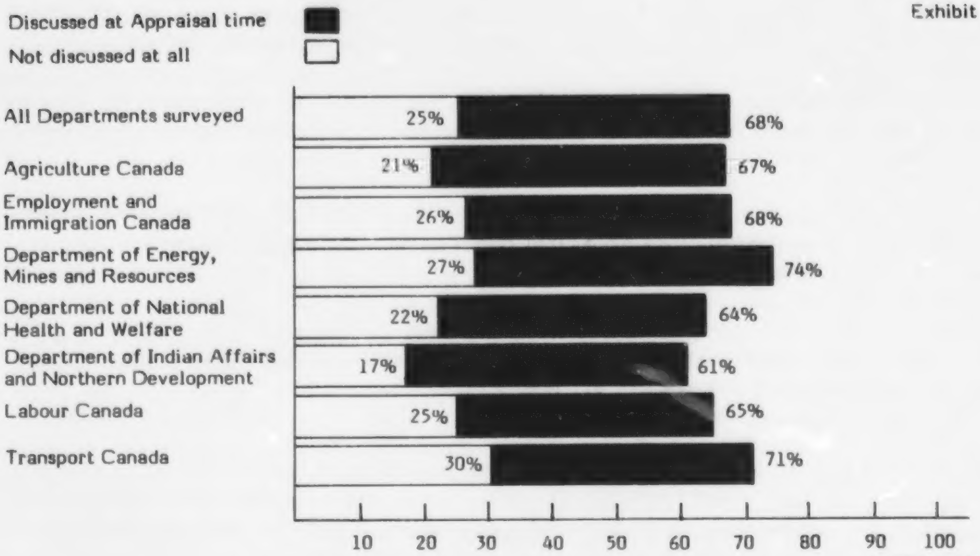
5.49 In this regard, we noted that the new systems being introduced in two departments were directed at improving communication between the supervisor and subordinate concerning employee performance by emphasizing the linkage between performance review and the work planning process. In one of the departments, communication was further encouraged by the development of three distinct performance review systems, each designed to reflect the working characteristics of specific groupings of employees. These developments should result in more meaningful review processes in the department concerned.

Training of Supervisory Personnel in Performance Review and Employee Appraisal

5.50 In all departments audited, we found that there are courses designed to acquaint supervisory staff with the objectives and principles of performance review and employee appraisal. In most departments, the training is a regional responsibility and the length, content of the course and number of managers trained vary considerably, depending on regional resource availability and the priority placed on training. Our survey results showed that 62 per cent of the supervisors have received some form of training. The extent of the training ranged from 43 per cent in one department to 76 per cent in another and varied from a one-half hour briefing session to a three-day workshop.

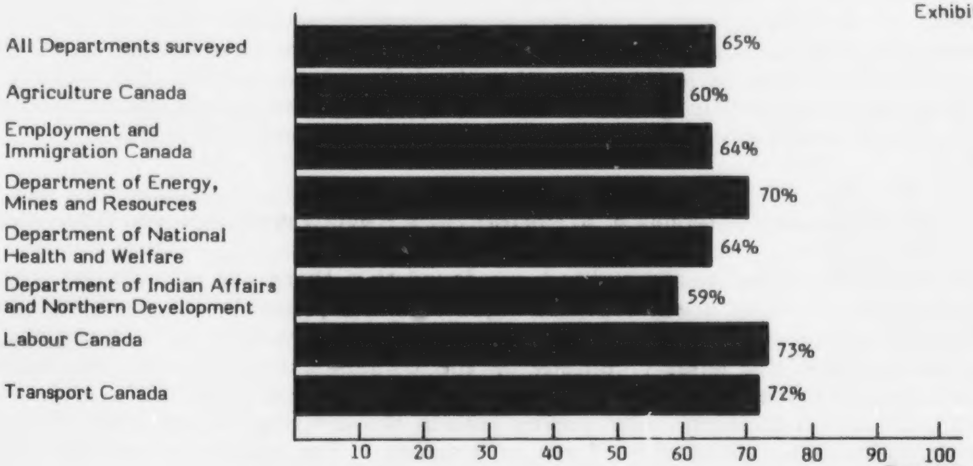
PERFORMANCE REVIEW AND EMPLOYEE APPRAISAL

Exhibit 5.1



Percentage of Employees by Department Indicating That Their Supervisor Discussed Their Performance Only At The Time of the Annual Appraisal Or Not At All

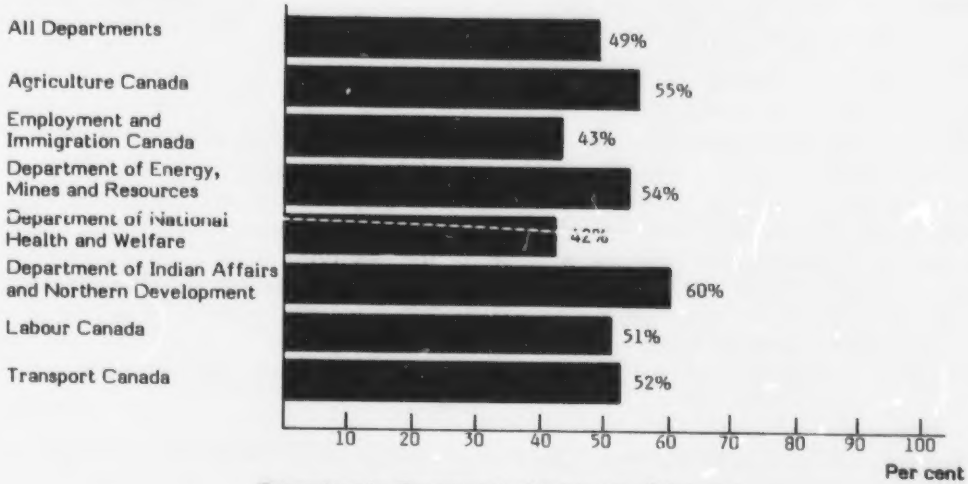
Exhibit 5.2



Percentage of Employees by Department Indicating That They Did Not Receive Enough Information About Specific Ways To Improve Their Performance

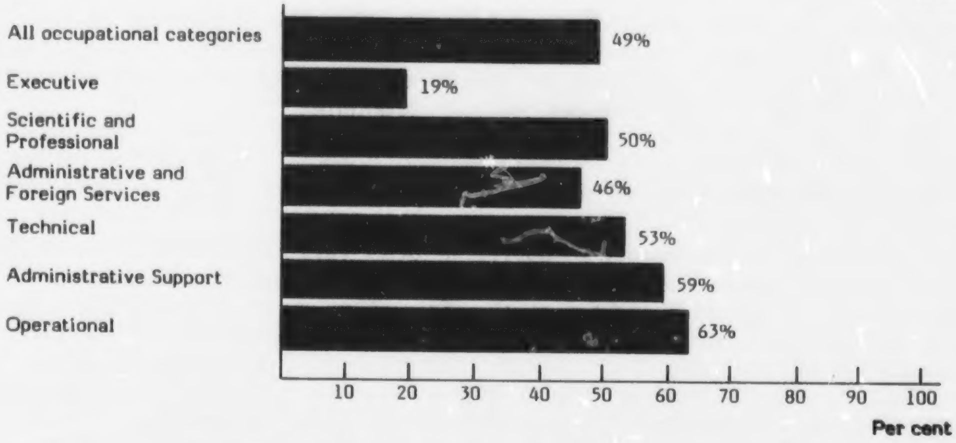
PERFORMANCE REVIEW AND EMPLOYEE APPRAISAL

Exhibit 5.3



Percentage by Department of Supervisors/Managers Surveyed Who Indicated A Need For More Training in Dealing With Employee Performance Problems

Exhibit 5.4



Percentage by Occupational Category of Supervisors/Managers Surveyed Who Indicated A Need for More Training in Dealing With Employee Performance Problems

5.51 Interviews with supervisors at all levels and in all occupational categories and groups indicated some concern with regard to training and its relationship to effective performance review and employee appraisal. These concerns are reflected in our survey results which reveal that 49 per cent of the supervisors believe they need training in dealing with employee performance problems and in counselling employees. These findings apply to all departments and occupational categories, although, as might be expected, employees in the executive category indicated a significantly lower need for such training than did employees in other occupational categories. These findings are illustrated in Exhibits 5.3 and 5.4. With regard to the completion of appraisal reports, 62 per cent of the employees expressed the view that no further training was required.

5.52 The concerns raised earlier regarding performance criteria and ongoing feedback, and the comments above on training lead us to conclude that there is a need for departments and agencies to improve the overall effectiveness of their training in performance review and employee appraisal. In this regard, we recognize that training is not a panacea for resolving all the problems in this area and that other approaches such as strong, visible management commitment are of critical importance. Nevertheless, training is, in our opinion, an important tool and should be fully used to provide supervisory personnel with the skills and confidence to discuss performance related matters with their subordinates.

5.53 **Departments and agencies should review their performance review and employee appraisal training programs to ensure that they:**

- **emphasize the importance of the supervisor's role and responsibility for performance review;**
- **provide supervisory personnel with the knowledge and skills required to develop and communicate performance expectations; provide feedback to employees, counsel employees and deal effectively with performance problems.**

The Performance Review and Employee Appraisal Report

5.54 **Content.** Departmental appraisal forms vary in length and format, but they all include space for written summaries of the results of performance reviews, for training needs and for other information, such as career aspirations, developmental needs and employee potential. Most departments have several appraisal forms designed for specific occupational groups or clusters of occupational groups, although a few have a common form for all employees, excluding research scientists. In that occupational group, a common form is used throughout all departments. We also noted that, although the Treasury Board policy requires an overall rating, categorized as outstanding, superior, fully satisfactory, satisfactory, unsatisfactory, these categories were not followed in all departments.

5.55 Our review of completed forms revealed that the quality of the information recorded on the appraisal reports varies widely across departments. We found that, although narrative comments about performance were recorded on appraisal reports in the majority of cases, these comments ranged from explicit performance-related statements to vague generalities about performance. For example, the percentage of appraisal forms that we believed contained good performance-related narratives ranged from 32 per cent of the forms in one department to 92 per cent in another.

5.56 We also found that the number of forms containing comments on performance weaknesses was low in most of the departments audited. Of those appraisal forms on which weaknesses were recorded, we noted that action plans to address the weakness were often missing and, when they were included, they tended to be vague and general.

5.57 With regard to performance weaknesses, the questionnaire findings indicate that approximately one-half of managers say they would discuss performance problems with employees but would not document problems on the performance review and employee appraisal form. During our interviews, managers indicated that they do not want to affect the morale, motivation and career of employees by recording weaknesses. They also stated that they would not record weaknesses for fear that having such weaknesses entered on the employee's record would make it difficult to "get rid" of a low performer. We also encountered a view, expressed on a number of occasions, that it was better to assess an employee as satisfactory or fully satisfactory rather than higher, because there were fewer problems in defending such a rating and less possibility of losing the employee. Relevant to the foregoing, our survey indicates that the distribution of appraisal ratings in the seven departments audited are: outstanding - 1 per cent; superior - 16 per cent; fully satisfactory - 62 per cent; satisfactory - 20 per cent; unsatisfactory - 1 per cent.

5.58 Our interviews with employees concerning the appraisal report indicated that many were concerned about its quality and felt that the narrative comments were often too superficial and did not address specific aspects of their performance. The questionnaire results confirmed these views; over 52 per cent of the respondents believed that the appraisal report is not very helpful in assessing weaknesses or in improving performance.

5.59 **Review of appraisal reports.** Departmental procedures require that the supervising officer complete the appraisal report, review and discuss it with the subordinate and then refer it for final review by a reviewing officer and/or by a formally constituted review committee. In some departments, review by the reviewing officer or review committee is required before the report is discussed with the employee. Although the role of the reviewing officer and the review committee varied somewhat across the departments, in every department they were responsible for maintaining some standard of consistency and objectivity in the completion of appraisal reports. In some departments, review committees were also responsible for using appraisal data to develop succession plans and to nominate employees for developmental courses.

5.60 As indicated, we found significant deficiencies in the quality of the information on appraisal reports in many departments, even though these reports had been signed by a reviewing officer or a review committee. We conclude that the process for reviewing appraisal reports in most departments is not providing effective control over the quality of the information recorded. This is of concern because the quality of the appraisal information is directly related to the extent to which it can be relied on to assist in making decisions concerning the employee.

5.61 In our view, the review process provides an opportunity for management to not only influence the quality of appraisal reports but also to have a direct impact on the entire performance review and employee appraisal process and how it is carried out.

5.62 **Departments and agencies should have procedures in place to ensure that reviewing officers and review committees carry out their responsibilities with respect to the quality of appraisal reports.**

Uses of Appraisal Information

5.63 Treasury Board and departmental policies state or imply that the information on performance review and employee appraisal reports will be used or considered when making management decisions about staffing, training, development, succession planning or career planning. We found, however, that most departments are not using the information captured for many of these purposes. With the exception of some specific occupational groups, many appraisals are simply filed by the Personnel Branch after being signed by reviewing officers.

5.64 A considerable number of employees, regardless of level, were critical about many aspects of the appraisal process, including the extent to which appraisal information is used, particularly in the areas of career aspirations, training, and development. They felt that the process was largely a personnel paper exercise with no visible benefits. Some supervisory personnel did comment that their departments seemed to be aware of these problems and were attempting to improve their systems. We believe that the failure to use appraisal information for the purposes stated or implied has contributed to the credibility gap on the part of supervisory personnel and their subordinates.

5.65 **Staffing.** The Public Service Commission has indicated that departments and agencies should use performance review and employee appraisal reports in the staffing process. We found that appraisal reports are used to a limited extent in the staffing process because most managers and personnel specialists do not have confidence that the reports accurately reflect the level of performance, or that they are sufficiently informative about performance to be of use for selection purposes. Our findings on the content of the appraisal reports confirm that this is frequently the case and point to the need for caution in using appraisal information in the staffing process.

5.66 **Human resource planning.** Although most departmental reports capture information on career aspirations and mobility, this information is rarely used for human resource planning purposes except for a selected group of employees, such as the management category. We did note that the information on appraisal reports is often used to assist in selecting individuals for certain developmental programs, such as the Career Assignment Program or the Special Assignment Pay Plan.

5.67 **Training.** Departmental appraisal reports capture information on training needs of individuals, and departmental policies state or imply that this information is to be used as a basis for departmental training programs. We found, however, that departments have other systems in place from which to determine needs for training plans and for scheduling courses, most of which do not use information from the appraisal reports.

5.68 Interviews with training officers indicate that training requirements identified by managers are often too vague or too unclear to be used effectively. They also were of the opinion that most managers are not well equipped to identify which performance deficiencies could be improved through training. Our questionnaire showed that managers themselves perceive that they lack skills in this area; 39 per cent state that they require more training in identifying training needs. One department, recognizing this concern, provided managers with a comprehensive briefing manual designed to assist them in identifying training needs.

5.69 **Departments and agencies should:**

- **ensure reasonable consistency between stated intentions and actual uses of appraisal information in such areas as training and development, staffing, and human resource planning; and**
- **provide managers with the information necessary to assist them in identifying training needs.**

5.70 **Salary administration.** The only consistent use of the appraisal report across all departments is in the determination of merit pay for certain occupational groups. For these groups, we found that the overall performance rating is the main determinant in setting salary increases.

5.71 The majority of employees in the public service are in positions with fixed salary increments which they receive annually until they reach the maximum of the salary range, providing their performance is satisfactory. If performance is not satisfactory, the increment can be denied. During this audit, we examined the linkages between the appraisal process and salary increment and were informed that pay increases are seldom denied because there are so few unsatisfactory ratings in the public service.

5.72 **Performance problems.** Appraisal reports play an important role in the administrative actions associated with dismissing an employee. We found that because appraisal reports tend to be too general and not descriptive of known performance weaknesses, the process of dismissal is often delayed because management is unable to use the existing appraisal reports.

5.73 In this regard, managers in a number of departments voiced concerns about these and other difficulties associated with the dismissal of an employee. Some stated that they have incompetent employees whom they are not able to dismiss, demote or transfer either because of the lack of adequate documentation or because of the rigorous procedures involved in taking such action.

5.74 The deficiencies in the appraisal documentation cannot be resolved until the reviewing officers and review committees accept responsibility for ensuring that performance problems are properly identified on appraisal reports.

Use of Overall Ratings

5.75 Treasury Board policy and the majority of departmental appraisal forms require that there be an overall rating of performance categorized as outstanding, superior, fully satisfactory, satisfactory or unsatisfactory. We found, however, that the ratings are rarely used in making personnel management decisions for the majority of employees, although, for a small proportion of the population, they are used for pay purposes and other administrative decisions. We found that some employees believe that overall ratings are helpful in letting them know where they stand; however, the majority of employees interviewed feel that the overall ratings tend to take the focus away from the job, its components and performance achievements.

5.76 **The Treasury Board Secretariat should review the requirement for an overall performance rating when the employee's performance is satisfactory and when the information is not required for administrative decisions.**

Monitoring and Evaluation

5.77 A number of the departments audited have recently introduced major changes to their performance and employee appraisal systems and, as a result, they are not in a position to assess the impact of their new policies and systems. We noted, however, that these departments had undertaken a review of selected aspects of their appraisal processes prior to modifying the existing systems and that one department had established a major task force to assess department-wide practices over an extended period of time.

5.78 In departments with established programs, we found a wide range in the quality and extent of review conducted by the personnel branch or by the internal audit organization. Some departments concentrated solely on completion rates while others also reviewed such areas as the quality and content of appraisal reports.

5.79 We found that, although all departments analyse completion rates and some assess information on the quality of appraisals, few departments have systems in place to determine if performance review and appraisal processes are achieving the desired results in such fundamental areas as setting job expectations, providing employees with ongoing performance feedback and assisting employees in improving performance.

5.80 In view of the fact that performance review and employee appraisal systems have the potential of affecting present and future performance of all employees, departments should also be able to assess the extent to which the appraisal reports of supervisory personnel indicate that they are being held accountable for carrying out their appraisal responsibilities; whether the quality of appraisal reports indicate that reviewing officers and committees are effectively carrying out their responsibilities; and whether information collected through the appraisal process is being fully utilized.

5.81 With regard to management accountability, we noted that, even though the policy of the Treasury Board states that appraisals of supervisors should consider explicitly the quality of the performance review and employee appraisals they conduct, the appraisal forms we reviewed in most departments made no reference to this supervisory responsibility.

5.82 **Departments and agencies should ensure that they have systems in place to assess compliance to their performance review and employee appraisal policies, directives and guidelines and to determine the extent to which departmental appraisal objectives are being met.**

GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES AND CONTROLS

GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES AND CONTROLS

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6

GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES AND CONTROLS

SYNOPSIS

6.1 This is the third annual report of our monitoring of IMPAC, the initiative of the Office of the Comptroller General (OCG) to Improve Management Practices and Controls in federal government departments and agencies.

6.2 IMPAC was designed to survey the state of management practices and controls in departments and agencies, to identify deficiencies, to develop individual Action Plans to remedy identified deficiencies, and to support the implementation of these plans. Typical IMPAC Action Plans include projects covering such areas as: development of departmental planning systems; establishing strategic objectives; short and long-term operational plans; financial and operational information systems; and program evaluation and internal audit processes.

6.3 Initially, IMPAC surveyed 29 government entities which accounted for 85 per cent of public expenditures, excluding the Public Debt. It is the OCG's intention to expand IMPAC coverage to other government entities included in schedules A and B of the Financial Administration Act.

6.4 As of 31 March 1980, the OCG had endorsed six Action Plans. In the following year, another 12 were endorsed. By 31 March 1982, there were 25 endorsed Action Plans, representing approximately two-thirds of government expenditures. These Plans are at various stages of implementation.

6.5 Exhibit 6.1 provides historical background on IMPAC from 1979 to 1981. Exhibit 6.2 indicates the status of the 30 departments and agencies participating in IMPAC as of 31 March 1982. Since our last report in 1981, 7 more departments, for a total of 25, now have or have had endorsed Action Plans. Four departmental Action Plans are in the process of being endorsed; one department is still in the survey stage.

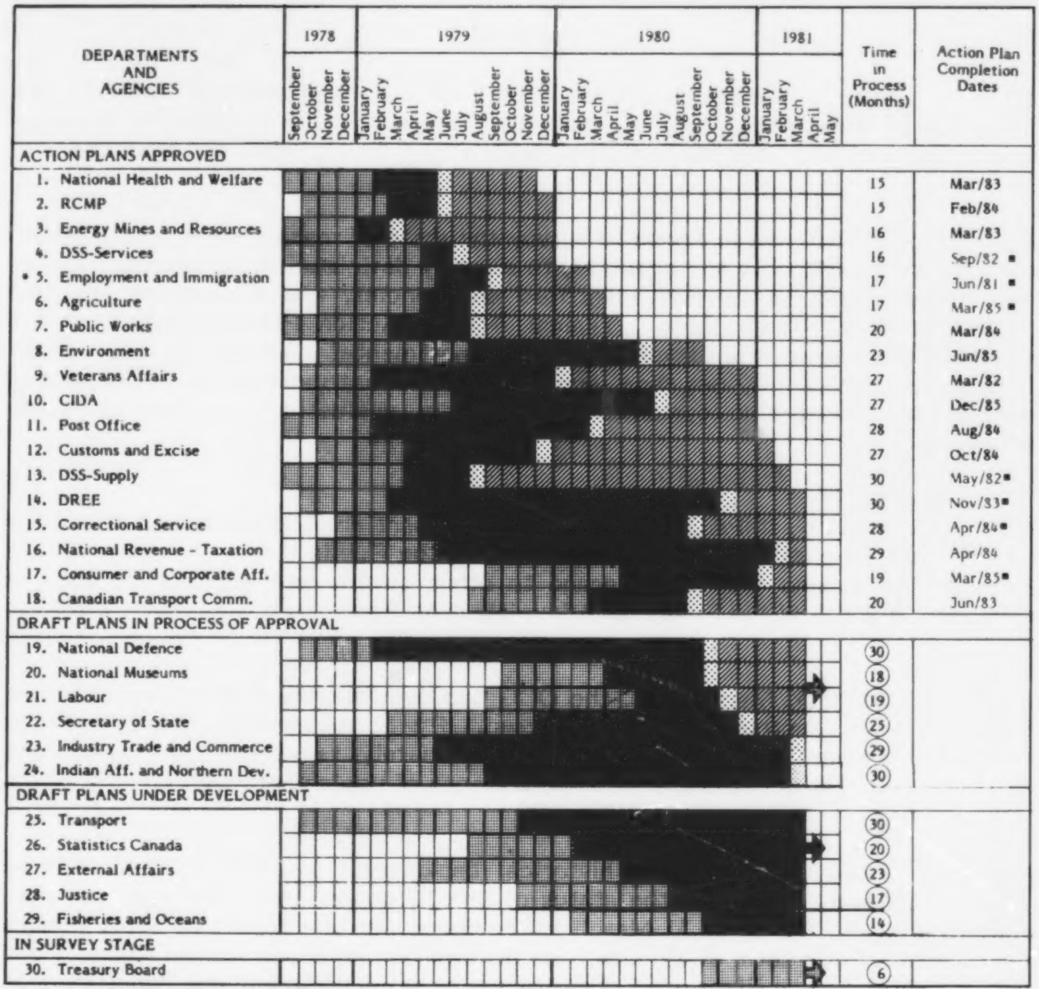
6.6 Of the 25 endorsed plans, 3 have had their implementation curtailed by major government reorganizations and 22 are in various stages of implementation. One of the 22 is awaiting the outcome of major government policy directions, and another is awaiting relocation of the department. Three are almost complete and have reached a sign-off stage. Seven Action Plans are in the process of revision, and the balance are in the process of implementation.

Exhibit 6.1

GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES

STATUS OF ACTION PLANS - 31 MARCH 1981

(Reprinted from 1981 Report)•



DEPARTMENTS AND AGENCIES	Time in Process (Months)	Action Plan Completion Dates
ACTION PLANS APPROVED		
1. National Health and Welfare	15	Mar/83
2. RCMP	15	Feb/84
3. Energy Mines and Resources	16	Mar/83
4. DSS-Services	16	Sep/82 ■
• 5. Employment and Immigration	17	Jun/81 ■
6. Agriculture	17	Mar/85 ■
7. Public Works	20	Mar/84
8. Environment	23	Jun/85
9. Veterans Affairs	27	Mar/82
10. CIDA	27	Dec/85
11. Post Office	28	Aug/84
12. Customs and Excise	27	Oct/84
13. DSS-Supply	30	May/82■
14. DREE	30	Nov/83■
15. Correctional Service	28	Apr/84■
16. National Revenue - Taxation	29	Apr/84
17. Consumer and Corporate Aff.	19	Mar/85■
18. Canadian Transport Comm.	20	Jun/83
DRAFT PLANS IN PROCESS OF APPROVAL		
19. National Defence	㉚	
20. National Museums	⑱	
21. Labour	⑲	
22. Secretary of State	㉕	
23. Industry Trade and Commerce	㉙	
24. Indian Aff. and Northern Dev.	㉚	
DRAFT PLANS UNDER DEVELOPMENT		
25. Transport	㉚	
26. Statistics Canada	⑳	
27. External Affairs	㉓	
28. Justice	⑰	
29. Fisheries and Oceans	⑭	
IN SURVEY STAGE		
30. Treasury Board	⑥	

• Excludes Benefit and Overpayment System

IMPAC Action Plan Development and Approval Process

▦ Survey Stage
■ Action Plan Development
░ Action Plan Received by OCG
▨ Action Plan Review and Approval

○ Process incomplete: circled number is the number of months in process to 31 March 1981

⇨ Process ongoing

■ Completion dates revised to reflect status at 31 March 1982

Exhibit 6.2

GOVERNMENT INITIATIVE FOR IMPROVED MANAGEMENT PRACTICES

STATUS OF ACTION PLANS - 31 MARCH 1982

DEPARTMENTS AND AGENCIES	Action Plan Endorsement Dates to 31 March 1981 (see Exhibit 6.1)	1981									1982					Time in Process (Months)	Action Plan Completion Dates	
		April	May	June	July	August	September	October	November	December	January	February	March	April	May		Original	Revised
ACTION PLANS ENDORSED																		
1. National Health and Welfare	November 1979															15	03/83	N/C +
2. RCMP	December 1979															15	12/82	02/84 +
3. Energy, Mines and Resources	December 1979															16	03/83	N/C +
4. DSS-Services	December 1979															16	03/81	09/82
*5. Employment and Immigration	February 1980									X						17	05/81	06/81
6. Agriculture	March 1980															17	03/83	03/85
7. Public Works	April 1980															20	03/84	N/C +
8. Environment	September 1980															23	06/85	N/C
9. Veterans Affairs	December 1980															27	03/84	N/C +
10. CIDA	December 1980															27	12/85	N/C
11. Canada Post Corporation	December 1980															28	08/84	N/C
12. Customs and Excise	January 1981															27	10/84	N/C +
13. DSS-Supply	February 1981												X			30	12/81	05/82
•14. DREE	March 1981															30	11/83	N/C
15. The Correctional Service	March 1981															28	04/84	N/C
16. National Revenue-Taxation	March 1981												X			29	04/84	N/C
17. Consumer and Corporate Affairs	March 1981															19	03/84	03/85
18. Canadian Transport Commission	March 1981															20	06/83	N/C
19. National Museums		▨	▨													20	06/83	+
20. Secretary of State		▨	▨													27	12/83	
21. Labour		▨	▨	▨												22	07/82	
22. Industry, Trade and Commerce		▨	▨	▨												32	12/84	
23. Justice		▒	▨	▨	▨											21	10/83	
24. Indian Affairs and Northern Development		▨	▨	▨	▨											34	85/86	
25. Transport		■	■	■	■	■	■	▒	▨							38	03/86	
DRAFT PLANS IN PROCESS OF ENDORSEMENT																		
26. Statistics Canada		■	■	■	■	■	■	■	■	■	■	■	▒			㉜	84/85	
27. External Affairs		■	■	■	■	■	■	■	■	■	■	■	■	⇨		㉟	Not Known	
28. Fisheries and Oceans		■	■	■	■	■	■	■	■	■	■	■	▒			㊱	9/85	
IN SURVEY STAGE																		
29. Treasury Board		░	░	░	░	░	░	░	░	░	░	░	░	⇨		⑱	Not Known	

* Excludes Benefit and Overpayment System

IMPAC Action Plan Development and Endorsement Process

░ Survey Stage
■ Action Plan Development
▒ Action Plan Received by OCG
▨ Action Plan Review and Endorsement
⇨ Process ongoing

○ Process incomplete: circled number is the number of months in process to 31 March 1982
X Action Plan conditionally signed off
+ Action Plan under revision

Notes:
National Defence Survey Report favourable - no Action Plan required
• DREE integrated with IT&C

6.7 A number of different factors have contributed to the revisions in these seven Plans and the resulting delays. These include organizational changes, senior management turnover, changes in central agency policies (PEMS, Reform of the Estimates), responses to subsequent comprehensive audit findings, and inappropriate initial plans. Plan revisions can also reflect the learning process involved in implementing an initiative as comprehensive and complex as IMPAC. However, plan revisions also raise concern about resource requirements and project time frames that may impact on the momentum for change.

6.8 Our monitoring of the IMPAC process and its progress is carried out in accordance with a request from the Public Accounts Committee and is designed to provide the House of Commons with an independent, ongoing review of IMPAC. Since 1980, we have reviewed IMPAC activities annually in all departments as their Action Plans were endorsed, paying special attention to:

- framework and approach for implementing changes in management practices;
- contents of Action Plans; and
- implementation and progress of Action Plans to 31 May 1982.

6.9 Our review of the 25 departments with endorsed Action Plans as of 31 March 1982 indicated that major outstanding audit observations have been or are in the process of being addressed. Departments that were subject to comprehensive audits subsequent to their IMPAC Surveys, are revising their Plans to take into account comprehensive audit findings.

6.10 Satisfactory progress in implementing IMPAC Action Plans can be reported in six departments. Significant overall slippage is reported in nine departments and minor slippage in six departments. Progress in one department could not be assessed because of a lack of milestone dates.

6.11 Notable overall progress has been achieved by departments within the IMPAC process in establishing planning functions and developing strategic plans, and in establishing internal audit and program evaluation functions. However, development and implementation of financial and management information systems is lagging in 8 of 22 departments.

6.12 Among the departments incurring significant slippage, we observed five situations where Action Plan implementation was faltering. In all cases, a significant factor was the inadequacy of the framework for change as evidenced by limited senior management involvement in the process; commitment of adequate and appropriate resources; department-wide communications by senior management; and supporting organizational structures.

6.13 Generally, we have observed that senior management is increasingly concerned with improving management practices and controls, even in departments where measurable progress has fallen behind. Although it is difficult to measure this kind of progress against tangible milestones, it must be acknowledged as an achievement of IMPAC.

6.14 The 25 departments had estimated their committed costs of IMPAC to be $225 million, involving some 3,500 person-years. For nine of these departments, costs have increased from $96 million to $134 million, and person-years increased from 924 to 1,356. However, because these costs have not been compiled in a uniform manner, the accuracy of these figures cannot be assessed.

6.15 Now that some Action Plans are entering the final phase of implementation, our future monitoring of IMPAC will include an assessment of achievements. We believe that our ongoing review of the IMPAC process should be integrated into our departmental comprehensive audit cycle. Completed IMPAC projects could then be audited within the context of the comprehensive audit and the findings would indicate whether anticipated improvements have been achieved.

6.16 In our review of the management of IMPAC by the Office of the Comptroller General, we noted that there have been revisions and improvements to the IMPAC management process since our 1981 review.

6.17 We observed that five of the seven Plans under revision had commenced revisions within a year of their implementation. In attempting to review the endorsement process for these Plans, limited evidence was found supporting this process. In several departments, unendorsed revised Plans existed for up to two years. The OCG Policy and Procedures Manual now calls for a qualitative assessment of Action Plans against specified criteria prior to endorsement.

6.18 We also found that there had been little attempt by the departments or the OCG to assess the results achieved by completed projects or to assess project and plan achievements in relation to plan objectives.

6.19 The Implementation Assistance Program (IAP) Fund administered by the OCG now totals $21.9 million and 317 person-years. An evaluation of the IAP Fund is currently being undertaken at the request of the Comptroller General.

6.20 The OCG has made significant effort during the past year to encourage departments to identify benefits and to obtain departmental commitment for achieving tangible benefits from the IMPAC process. The OCG has compiled, as of 31 May 1982, $10.6 million of recurring and $16.5 million of nonrecurring benefits already realized, and deputy heads in departments and agencies have formally committed themselves to another $122.9 million of recurring, and $15.5 million of non-recurring, potential benefits. To date departments, with the observed exception of the Unemployment Insurance benefit system of the Canada Employment and Immigration Commission, have not set up a process to monitor the achievement of realized benefits.

6.21 The OCG is scheduled to conduct a formal evaluation of the IMPAC program in 1984. Such an evaluation should provide an assessment of the achievements of the IMPAC program.

6.22 The Public Accounts Committee expressed the concern that IMPAC was developing into an ongoing process.

6.23 While acknowledging that management improvement in government is an ongoing responsibility of both government departments and central agencies, we believe that a contribution to that end is being made by the existence of the IMPAC process. Recognition must be given to the progress achieved by departments in the pursuit of improved management practices and controls. However, progress in individual departments has varied considerably, and costs are escalating. IMPAC's original intent was to identify significant management weaknesses in departments and agencies and to implement remedial actions within planned project time frames and estimated costs. As it gathers momentum, it is becoming the means by which many other changes are and can be introduced into departments and agencies. This in itself is not necessarily inappropriate; however, if the original intent and approach to IMPAC are changing, such changes should be clearly stated and communicated to the PAC.

1982 IMPAC Review - Detailed Report

Scope

6.24 Our 1982 monitoring of IMPAC addressed:

- the policies and procedures used by the Office of the Comptroller General in directing and monitoring IMPAC;
- the 25 endorsed Action Plans with respect to the framework and approach for implementing improvements in management practices, the contents of the Action Plans, and the implementation and progress of the Action Plans as of 31 May 1982. Five Action Plans were in departments subject to comprehensive audits in 1982;
- the identified costs and benefits of IMPAC to 31 March 1982;
- the concerns raised by the Public Accounts Committee during the review of the 1981 IMPAC chapter, including the ongoing nature of IMPAC, its success in achieving its objective, and costs versus benefits derived; and
- the follow-up of observations and recommendations made in our 1980 and 1981 IMPAC reviews.

Office of the Comptroller General - Management of IMPAC

6.25 **Scope.** The Office of the Comptroller General, and specifically the Management Practices Branch, has prime responsibility for overall direction, monitoring and control of IMPAC. Assistance is provided by the Policy Development Branch, responsible for Internal Audit, and by the Program Evaluation Branch. Our review focused on the IMPAC Policies and Procedures Manual published by the Office of the Comptroller General and the practices followed by the Management Practices Branch in implementing these policies and procedures. We interviewed Liaison Officers in the Management Practices Branch and reviewed their working papers. We also reviewed OCG central files and cross-referenced OCG departmental status reports to departmental activities.

6.26 Our 1981 report commented on the need to improve the maintenance of departmental status reports, to establish departmental guidelines for reporting costs and benefits, and to provide for formal evaluation of completed IMPAC projects. We also noted in 1981 that there had been significant slippage in holding departmental anniversary reviews of IMPAC activities.

6.27 **Observations.** This year, we found that the OCG monitoring and control processes have been further refined and documented. There has also been a reduction in the slippage in meeting anniversary review dates. Status reporting is now done against a quarterly departmental work plan with specified objectives. However, in reviewing the contents of the reports, we found they did not provide sufficient information to enable the progress of departmental plans to be monitored adequately.

6.28 For the period under review, OCG guidelines for reporting costs and benefits had not been issued, nor had processes been established for evaluating completed IMPAC projects. However, development of such guidelines was in process at the time of our review.

6.29 We found that procedures for managing the Implementation Assistance Program funds were satisfactory. An evaluation of the Implementation Assistance Program is currently being undertaken at the request of the Comptroller General.

6.30 Continuity of involved staff and management is an essential factor in managing change and can have a significant effect on the success of the initiative. We are concerned that the rate of turnover of those involved with IMPAC will have a negative impact on maintaining the momentum for change.

6.31 We observed that, to encourage the progress of IMPAC, Action Plans have sometimes been endorsed and their implementation begun even though there were concerns expressed by the OCG as to the adequacy of the Plans. The OCG Policies and Procedures Manual now calls for a qualitative assessment of Action Plans against specified criteria prior to endorsement. Of seven Plans being revised, five of those revisions had begun within one year of the start of implementation, and several departments had unendorsed revised plans for up to two years.

6.32 The Policies and Procedures Manual calls for Liaison Officers to validate completed projects with respect to their adequacy and quality; there has been limited attempt to do so. The OCG claims a lack of resources to undertake this kind of analysis and assessment. In addition, the OCG advocates self-evaluation, which should be the responsibility of internal audit divisions in departments. Given the extent of the departmental resource commitment to IMPAC, it is essential that prompt and objective information be available on the degree of success of the project in remedying identified problems and on its appropriateness for this purpose. Without this kind of feedback, there may be difficulty in improving future plans or assuring appropriate accountability.

6.33 In 1981 we commented on the need for evaluating the success of IMPAC as a whole. The Comptroller General reported to the Public Accounts Committee in 1982 that he is scheduled to conduct a formal evaluation of the IMPAC program in 1984. Such an evaluation should provide an assessment of the achievements of the IMPAC program.

IMPAC Framework for Change

6.34 A major factor in the successful implementation of change is the existence of an adequate framework for change that reflects the motivation of participants and management commitment to the process. To determine the adequacy of the IMPAC framework, we reviewed the structures and processes established within each department for implementing IMPAC, focusing on organizational structures, management involvement in the process, resource commitment, and senior management's department-wide communications.

6.35 The extended time periods of many of the Action Plans have demanded a prolonged commitment from departmental management in a dynamic environment of organizational change, revised central agency policies such as PEMS, and senior management mobility. We observed a broad range of responses to these conditions among the 25 organizations we reviewed. In departments where a strong framework for change has been evident, the momentum of Action Plan implementation has been maintained; for example, to name only four: Agriculture Canada, Correctional Services, Secretary of State, and DSS-Services. However, in those departments where the framework for change has been weak or inconsistent -- for example, in Energy, Mines and Resources, the RCMP, and National Health and Welfare -- Action Plans have faltered.

6.36 In National Health and Welfare, changes in senior management resulted in inconsistent support for the framework for change. Recent reinforcement of the framework has led to increased momentum.

6.37 In the case of the RCMP, an inadequate framework led to an impasse in the development of a revised Action Plan that lasted for in excess of a year. Remedial action has been taken by the Department and, in September 1982, a revised Plan was agreed on.

6.38 Similarly, at Energy, Mines and Resources, a lack of sustained management commitment to IMPAC, together with an Action Plan that did not keep pace with changing management requirements resulted in a lack of progress in implementing certain important phases of the Plan. Limited progress has been made in implementing the Plan in the Energy Sector of the Department.

Contents of IMPAC Action Plans

6.39 **Response to previous audit observations.** We examined the endorsed Actions Plans to determine whether they had responded to our previous audit observations and recommendations. For each of the IMPAC entities, we compiled our observations and recommendations for the period 1975 to 1981, or from the most recent comprehensive audit. Those observations and recommendations that, in our opinion, had not otherwise been addressed were identified and compared to projects contained in the Action Plans.

6.40 The major outstanding audit observations in the departments reviewed had been addressed, either in the Action Plans or through departmental initiatives outside the IMPAC process. Departments where comprehensive audits had taken place after IMPAC Surveys are currently revising their Plans to include comprehensive audit observations and recommendations. Examples of these entities are the RCMP, National Museums, and Correctional Services.

6.41 With respect to our audit observations from previous IMPAC reviews, we noted the following:

- In 1980 and 1981, we reported on the preparation of a workplan for improvements to the Unemployment Insurance benefits system of Canada Employment and Immigration Commission in regard to overpayments and underpayments. Implementation of this plan has begun and as of the date of the review was 35 per cent complete.

- In addition, we have reported in previous years on the exclusion of related Boards and Commissions from the IMPAC Survey of departments. In our review this year, we noted that the Department of Transport - Surface Administration, which accounts for over 50 per cent of Department of Transport expenditures, was not included by the OCG in the 1979 IMPAC Survey of that Department. The comprehensive audit report on this program is found in Chapter 13 and the findings indicate that very significant improvements in management practices are needed in Surface Administration.

6.42 **Action Plans covered by comprehensive audits.** In 1982, comprehensive audits were conducted in certain sectors in 5 of the 25 organizations whose Action Plans were included in our audit (Transport Canada; National Health and Welfare; Energy, Mines and Resources; Agriculture; and Canada Employment and Immigration Commission). The Action Plans of these entities were reviewed beyond the scope of the other 20 to include:

- IMPAC attention to underlying causes;

- priorities in the IMPAC Plan;

- completion time of IMPAC tasks; and

- interim requirements.

It should be noted that, at the time of the review, the Action Plans of National Health and Welfare and of Energy, Mines and Resources were under revision and had not been approved by the OCG. Our review therefore considered activities carried out under the original Plans.

6.43 It has been difficult to assess individual Action Plans in terms of their attention to specific underlying causes. Where information was available, we can state that the IMPAC activities addressed broad areas of concern.

6.44 We could find no documentation or criteria statements indicating how priorities within Action Plans were set. We were therefore unable to assess the adequacy of the process.

6.45 Our previous observations have indicated that the estimating of completion time for IMPAC tasks has not been given adequate consideration. Unrealistic timeframes, which inevitably lead to slippage, can have a negative impact on maintaining the momentum for change. As experience with the IMPAC process is gained, we would expect to see improvements in estimating the time required to complete specific projects. In many of the Action Plans we reviewed, improvements have not been reflected, and slippage continues to be of concern.

6.46 In National Health and Welfare, specific interim measures were undertaken to span the period of plan revision. In the remaining four departments no interim measures were considered necessary by the departments or the OCG.

IMPAC Implementation Process

6.47 **Progress against milestones.** We reviewed the progress as of 31 May 1982 of the 25 departments in implementing their Action Plans against the milestones stated in the Plans.

6.48 Three departmental Action Plans -- Post Office, Department of Regional and Economic Expansion, and Industry, Trade and Commerce -- have had their implementation curtailed by major government reorganizations. Three Action Plans were at the point of sign-off. There were varying degrees of slippage in the remaining 19 organizations, ranging from not significant in 6 departments to significant in 9 departments. Three Plans had made satisfactory progress. In one case, Canadian Transport Commission, progress could not be accurately assessed because there were no milestones, or project start and finish dates in the Plan. Slippage was occurring in the areas of financial and management information systems in 8 of 22 departments.

6.49 Departmental officials cited the following reasons for slippage:

- inadequate original Action Plans;
- changes in central agency policies (PEMS, revised Estimates, etc.);
- systems design problems;

- reorganizations and senior management changes; and
- lack of qualified departmental personnel.

6.50 In 1980 and again in 1981, we expressed concerns that the Energy Sector activities of the Energy, Mines and Resources Action Plan were not on schedule. Our review this year confirmed that the revised Action Plan developed in March 1981 has not yet been approved, and overall progress in our opinion is a matter of concern.

6.51 We believe that, notwithstanding the complexity and difficulty of IMPAC, continued significant slippage can undermine the credibility of the process. Continued time extensions and revisions to plans can obscure original objectives, result in escalating costs, and push the realization of any benefits further down the road.

6.52 On a more positive note, several areas that have shown overall progress are the establishing of strategic planning processes, internal audit functions and program evaluation functions.

6.53 Achievements have been made by Canada Employment and Immigration Commission, Department of Supply and Services-Supply, and National Revenue - Taxation in bringing their Plans to a sign-off point with the OCG with minimal extensions to the original planned completion dates. This has, in some instances, involved turning some major uncompleted tasks into ongoing projects outside the Plan. In the case of National Revenue -Taxation, the OCG has written a "letter of disengagement" to the Department, which endorses the continuation of a major section of the Plan outside the IMPAC process and acknowledges satisfactory progress to date.

6.54 Generally, we have observed that senior management is increasingly concerned with improving management practices and controls, even in departments where measurable progress has fallen behind. Although it is difficult to measure this kind of progress against tangible milestones, it must be acknowledged as an achievement of IMPAC.

6.55 **Project management.** The departments reviewed had formal Action Plan documents which stated project objectives, indicated responsibilities and the acceptance of these responsibilities, contained resource requirements that were costed and scheduled, and, with the exception of CTC, recorded progress milestones and completion dates.

6.56 We reported in 1981 that there was a need to monitor costs and benefits and review completed projects in terms of achieving stated objectives, as requested of departments by the OCG. Although progress has been made in monitoring costs and identifying benefits, little attempt has been made to review completed projects.

Costs and Benefits

6.57 Departmental estimates of the committed costs of IMPAC, covering the 25 departments with approved Action Plans as of 31 March 1982, were $225 million and involved some 3,500 person-years. Departmental cost estimates, however, are not compiled in a uniform manner, and the accuracy of the resulting figures cannot be assessed. The OCG Management Practices Branch has provided $21.9 million and 317 person-years through the Implementation Assistance Program. The Management Practices Branch has an estimated annual administrative cost of $1.5 million.

6.58 At least nine departments had revised their estimated costs upward from their original estimates. This has been caused by a number of factors, including expanded plans, inaccurate initial costing, and lack of availability of internal resources. For these nine departments, this represents in total an indicated cost increase from $96 million to $134 million and a person-year increase from 924 to 1,356.

6.59 In 1980 and 1981 we made observations regarding the identification of benefits from IMPAC. The Office of the Comptroller General has encouraged departments to identify and commit themselves to achieving tangible benefits from IMPAC. The OCG has compiled, as of 31 May 1982, $10.6 million of recurring and $16.5 million of non-recurring benefits already realized, and deputy ministers in departments and agencies have formally committed themselves to another $122.9 million of recurring, and $15.5 million of non-recurring, potential benefits. To date departments, with the observed exception of the Unemployment Insurance benefit system of the Canada Employment and Immigration Commission, have not set up a process to monitor the achievement of benefits.

Public Accounts Committee Concerns

6.60 In accordance with the main concerns raised by the Public Accounts Committee during the hearings on the 1981 IMPAC Report, we have addressed the ongoing nature of IMPAC, the success of IMPAC in achieving its objectives, and the cost of IMPAC versus the benefits derived.

6.61 IMPAC's original intent was to identify significant management weaknesses in departments and agencies and to implement remedial actions within planned project time frames and estimated costs. As it gathers momentum, it is becoming the means by which many other changes are and can be introduced into departments and agencies. This in itself is not necessarily inappropriate; however, if the original intent and approach to IMPAC are changing, such changes should be clearly stated and communicated to the PAC.

6.62 This year, several departments have come to the completion dates of their Action Plans with a number of uncompleted tasks. These tasks are either being rolled over into a new Plan or continued as projects outside the Plan. In addition, ongoing Plans are being revised and expanded to accommodate new initiatives, including PEMS, recent comprehensive audit observations from this Office, and the findings of commissions and boards. As Plans are revised, time frames are expanded and costs escalate. There has, however, been limited attempt to assess the quality of completed projects or Plans or their effectiveness in meeting stated objectives.

6.63 To date, there has not been an opportunity to assess the effectiveness of IMPAC in achieving its objectives. Management improvement is an ongoing responsibility of government departments and agencies. The contribution of IMPAC to that process should be assessed. In our opinion, the evaluation of IMPAC process scheduled for 1984 by the Comptroller General will be a significant factor in determining how well the process is influencing the planned improvements in management practices and controls in the federal government.

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION -- IMMIGRATION PROGRAM

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION -- IMMIGRATION PROGRAM

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7

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION -- IMMIGRATION PROGRAM

SYNOPSIS

7.1 Immigration is one of the four programs administered by the Canada Employment and Immigration Commission (CEIC) in conjunction with the Department of Employment and Immigration. The Immigration and Demographic Policy Group, located at the National Headquarters of the Commission, provides functional direction to Immigration and Customs and Excise Officers throughout Canada on implementing the Immigration Program. The group does not, however, have any line authority over immigration officers, who report to CEIC's 10 regional directors.

7.2 The main immigration activities consist of recruiting and selecting immigrants, controlling the entry and stay of visitors to Canada, and providing settlement assistance to immigrants. Exhibit 7.1 shows the number of immigrants who entered Canada during each of the last five years.

7.3 For selection purposes, prospective immigrants are placed in one of three classes: members of the family class, independent immigrants, and refugees.

7.4 The Immigration Program is characterized by the high degree of discretionary power granted to Immigration Officers under the Immigration Act. Because of the positive attitude demonstrated in its procedures for selecting immigrants and admitting visitors, Canada is looked on as one of the countries most accessible to foreigners.

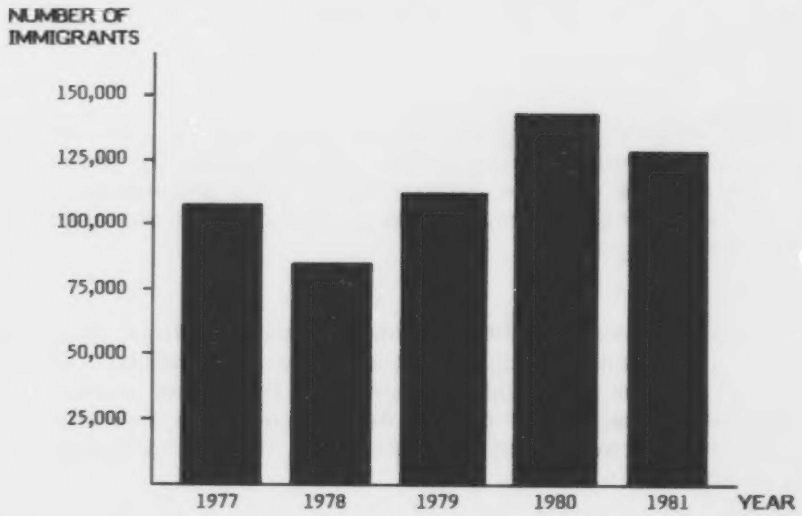
7.5 Studies prepared by the Commission raise questions about the ability of family class immigrants to adjust to their new surroundings. This situation could have repercussions on social programs and the labour market in Canada. Yet the Commission has carried out no evaluation of its selection process to determine whether it provides any assurance that these immigrants can become successfully established in Canada.

7.6 The simplified selection process used for the family class contains loopholes and thus is open to abuse. Headquarters is aware of unlawful means used by prospective immigrants to gain entry to Canada. However, the Commission has not established an information and analysis system that would permit it to assess the extent of the problem and take the appropriate steps to curb abuses.

Exhibit 7.1

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION

IMMIGRANTS, BY CALENDAR YEAR 1977-1981



7.7 Although the Immigration Act states that immigrants must obtain visas before arriving in Canada, more than 10 per cent of immigrants submit their applications when they are already in Canada. The frequent use of the discretionary power to make exceptions and grant landed status to persons already in Canada is not adequately controlled and monitored by National Headquarters.

7.8 There is a lack of control at ports of entry to Canada. The Commission does not ensure that admissions authorized by Immigration and Customs and Excise Officers at ports of entry are proper and appropriate.

7.9 The Commission has not rationalized its efforts to find and remove from Canada those who contravene the Immigration Act. Control of persons who are in Canada illegally depends in large part on the work of investigators. However, Headquarters has not clearly defined the investigators' objectives.

7.10 The Adjudication Directorate at Headquarters provides effective direction to adjudicators.

7.11 Settlement assistance provided to immigrants in the form of contributions and loans is not adequately controlled. Assistance to immigrants under the Adjustment Assistance Program, which involved expenditures of $70 million during the past three years, varies from one employment centre to another because the directives are unclear.

7.12 The Commission's practices for recovering loans fail to take account of the 1978 Immigration Regulations, including the special provisions concerning repayment schedules that apply to refugees and immigrants in designated categories. During December 1981, the Commission received payments on only 9,000 of the 34,000 loans outstanding. The Commission had lost contact with the recipients of 9,100 overdue loans (roughly 25 per cent of the total number of loans) amounting to $10.3 million; these loans were classified under "debtors to be traced".

7.13 The Headquarters management system provides little assurance that the Immigration Program is implemented in accordance with the Immigration Act, Regulations and guidelines. Headquarters is thus unable to fulfil a significant part of its responsibility to provide functional direction.

Overview

Employment and Immigration Canada

7.14 In 1977, the Employment and Immigration Reorganization Act brought together the Department of Manpower and Immigration and the Unemployment Insurance Commission to form the Canada Employment and Immigration Commission and the Department of Employment and Immigration. The Commission is responsible for all employment, unemployment insurance and immigration programs, while the Department's objective is to ensure that federal labour market and immigration policies and programs are developed and implemented.

7.15 The organization chart of Employment and Immigration Canada, presented in Exhibit 7.2, shows the structure of the Commission and the Department. The Headquarters of the Department and the Commission are located in Ottawa. The Department is composed of only two groups located at Headquarters: Strategic Policy and Planning, and Public Affairs. The Commission has seven groups at National Headquarters. Four are responsible for programs involving services to the public: Employment and Insurance, Benefit Programs, Labour Market Development, and Immigration and Demographic Policy. The other three provide professional, technical and administrative services relating to personnel, finance and administration, and computer systems. The implementation of the Commission's programs is delegated to ten regional offices, one in each province.

7.16 The Commission has approximately 800 service points and 25,000 employees.

7.17 This chapter deals only with the management of the Immigration Program. The other programs and support services of the Commission and the Department will be examined over the next two years.

The Immigration Program

7.18 Immigration in Canada is governed by the 1976 Immigration Act and by the 1978 Regulations, which deal with the admission to Canada of immigrants and visitors. The latter category includes students and temporary workers. Program activities are carried out in Canada and abroad.

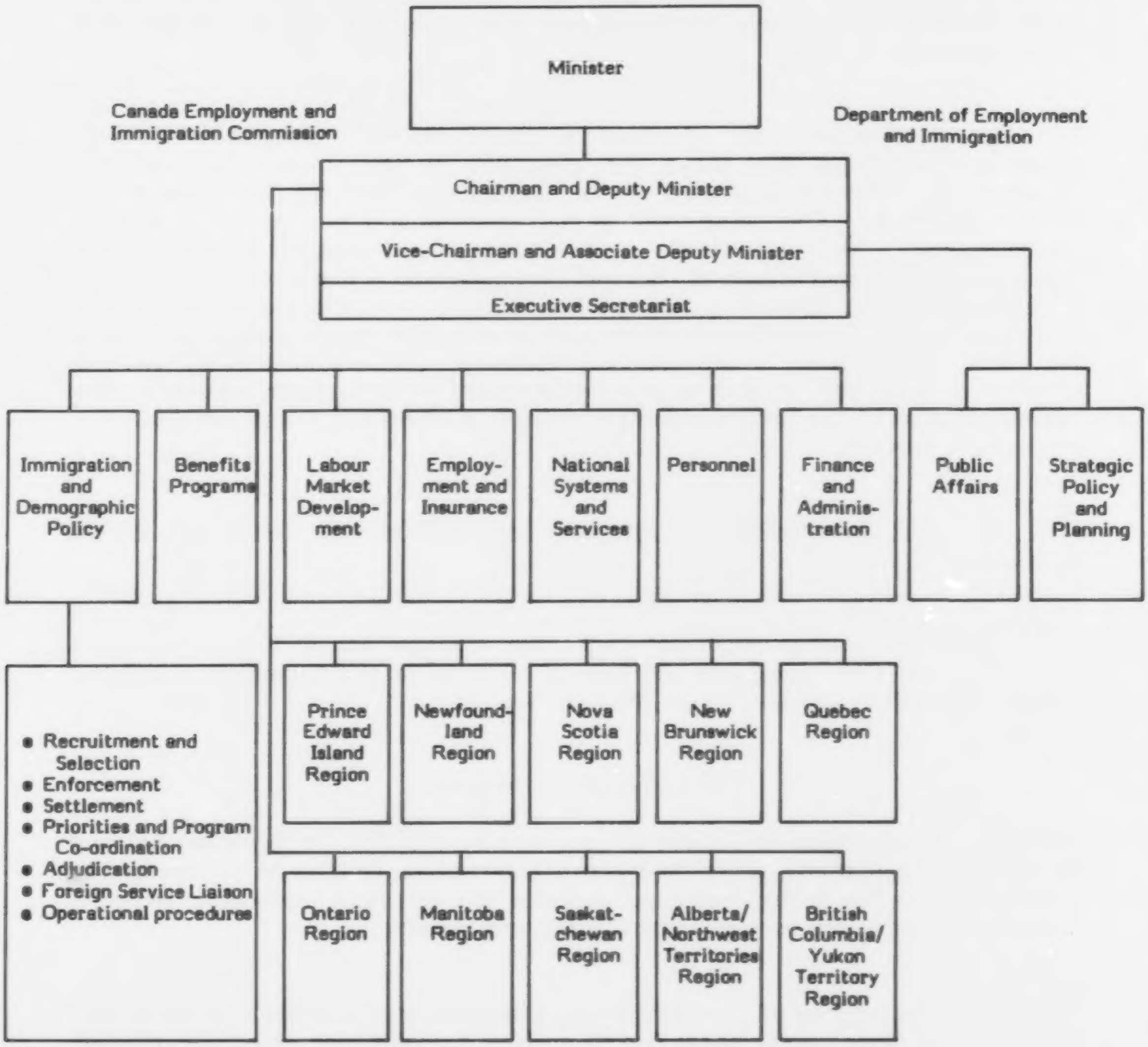
7.19 The purpose of Canada's immigration policy is to respond to our social, economic and demographic needs and to achieve humanitarian objectives through the resettlement of refugees. For selection purposes, there are three classes of immigrants:

- the family class: immigrants sponsored by a close relative who is a permanent resident or citizen of Canada;

Exhibit 7.2

EMPLOYMENT AND IMMIGRATION CANADA

SUMMARY ORGANIZATION CHART - 31 MARCH 1982


Minister
Canada Employment and Immigration Commission
Department of Employment and Immigration
Chairman and Deputy Minister
Vice-Chairman and Associate Deputy Minister
Executive Secretariat
Immigration and Demographic Policy
Benefits Programs
Labour Market Development
Employment and Insurance
National Systems and Services
Personnel
Finance and Administration
Public Affairs
Strategic Policy and Planning
• Recruitment and Selection
• Enforcement
• Settlement
• Priorities and Program Co-ordination
• Adjudication
• Foreign Service Liaison
• Operational procedures
Prince Edward Island Region
Newfoundland Region
Nova Scotia Region
New Brunswick Region
Quebec Region
Ontario Region
Manitoba Region
Saskatchewan Region
Alberta/Northwest Territories Region
British Columbia/Yukon Territory Region

- independent immigrants: selected mainly with a view to their expected participation in the labour market; and
- refugees and designated classes fleeing persecution or zones ravaged by war or natural catastrophes.

Each class includes the immigrants selected and the dependants who come with them to Canada.

7.20 The purpose of immigrant selection is to ensure that immigrants are able to establish themselves successfully in Canada, as required by the Immigration Act. The process should thus contribute to Canada's economic and cultural development.

7.21 In 1981, Canada received 128,600 immigrants. Exhibit 7.3 provides a breakdown of this number by class and a comparison with the data for 1980.

7.22 The Immigration Program has three main functions: selecting immigrants, students and temporary workers; monitoring foreigners who enter Canada and remain here; and helping immigrants settle into Canadian communities.

7.23 In its selection process, the Commission applies assessment criteria that are designed to be uniform for applicants from all the countries of the world. It regulates the entry of seasonal and other temporary workers and grants temporary entry to foreign students.

7.24 The Commission is also responsible for facilitating and controlling the admission into Canada of immigrants and visitors and for applying to them any necessary law enforcement and control procedures. These measures include examination, arrest, detention, exclusion and deportation of visitors and immigrants whose presence in Canada could constitute a threat to the health, well-being or national security of Canadians.

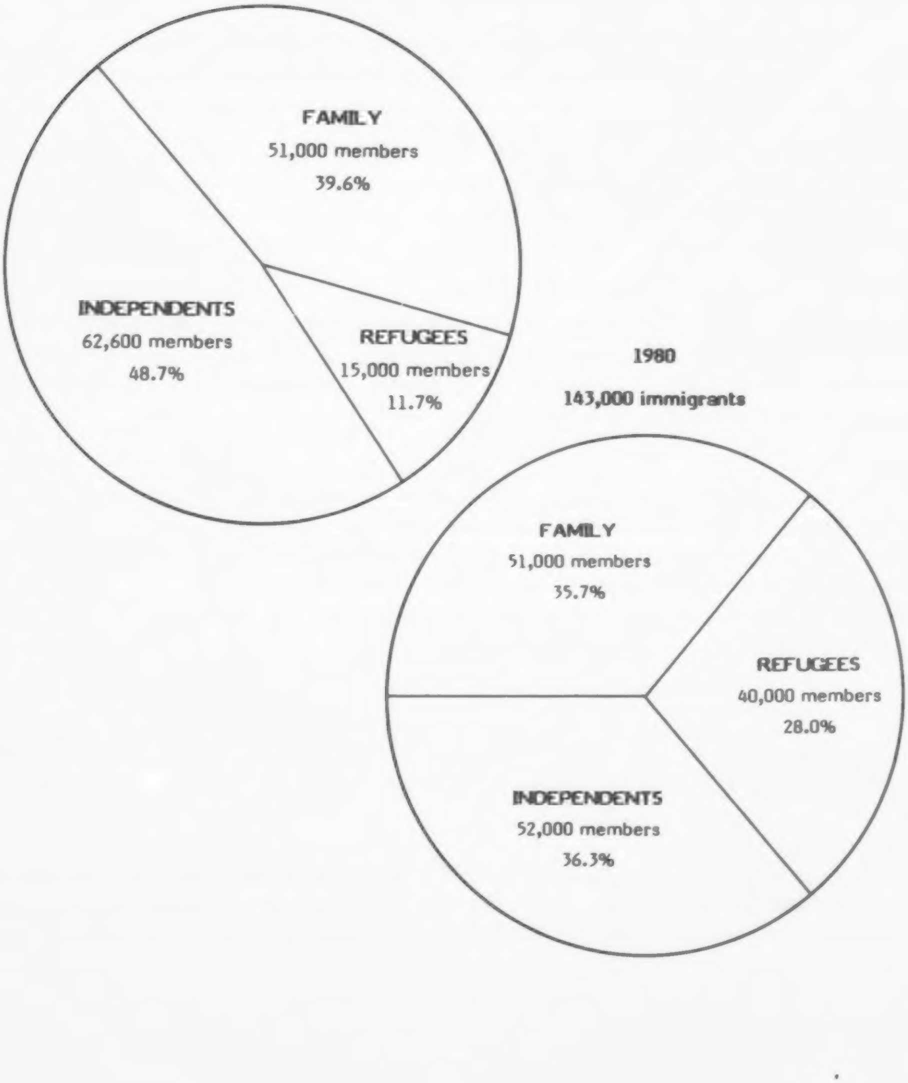
7.25 The Act includes provisions for assisting permanent residents who have recently arrived in Canada. The Commission helps them, through contributions and loans, to adapt to Canadian communities and to the Canadian way of life.

7.26 For fiscal year 1980-81, CEIC appropriations for the Immigration Program totalled $129,045,000. The Immigration Program employs approximately 2,200 people in Canada: 180 at National Headquarters and the rest in the 10 regions.

Exhibit 7.3

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION

SCHEDULE OF IMMIGRANTS BY CLASS



1981

128,600 immigrants

1980

143,000 immigrants

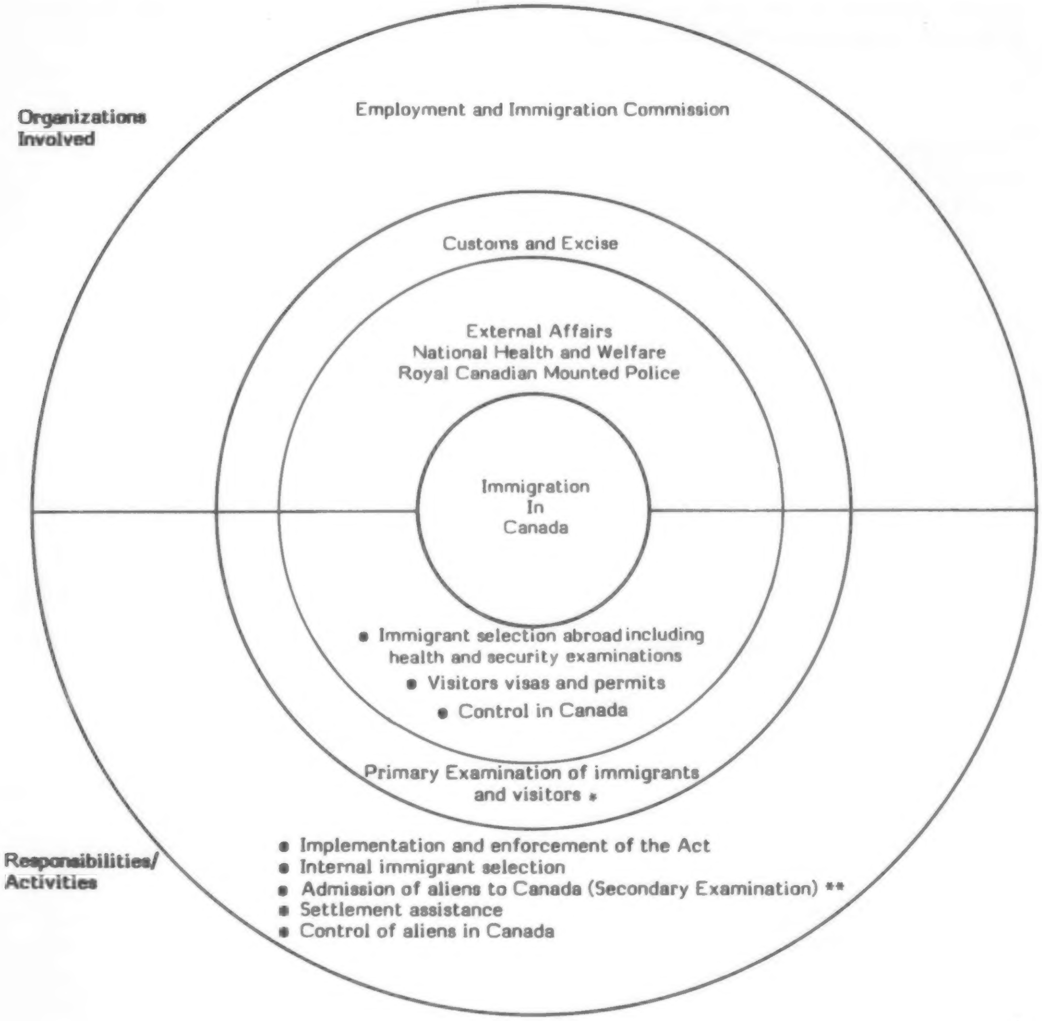
7.27 Immigration personnel are present at the 64 main ports of entry into Canada and in almost 50 cities at 108 Canada Immigration Centres (CICs). Outside Canada, immigration activities are handled by the Department of External Affairs.

7.28 The Immigration Program is characterized by the large number of groups involved in its application. Exhibit 7.4 shows these main groups, together with their responsibilities and activities.

Exhibit 7.4

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION

RESPONSIBILITIES AND ACTIVITIES OF ORGANIZATIONS INVOLVED


Organizations Involved
Employment and Immigration Commission
Customs and Excise
External Affairs
National Health and Welfare
Royal Canadian Mounted Police
Immigration In Canada
• Immigrant selection abroad including health and security examinations
• Visitors visas and permits
• Control in Canada
Primary Examination of immigrants and visitors *
Responsibilities/ Activities
• Implementation and enforcement of the Act
• Internal immigrant selection
• Admission of aliens to Canada (Secondary Examination) **
• Settlement assistance
• Control of aliens in Canada

* Primary Examination:	Examination of all persons who seek entry into Canada (visitors, immigrants, etc.)
** Secondary Examination:	Examination of immigrants and visitors who need authorization, including students and temporary workers

Audit Scope

7.29 Our audit focused on an examination of the existing systems, mechanisms and structures of the Immigration Program and the application of the provisions of the Immigration Act. The purpose of this was to determine whether the Commission demonstrates due regard for economy and efficiency in the management of this program and whether it has systems for measuring its effectiveness in reaching immigration objectives.

7.30 To this end, we examined the major components of the Immigration Program and the aspects that are crucial to its success. We therefore audited various organizational units of the CEIC, in view of their role in formulating guidelines and procedures; developing, implementing and monitoring immigration programs; and interpreting and administering the Act and Regulations.

7.31 Two chapters of this Report deal with the Immigration Program: our observations on immigration activities in Canada are the subject of this chapter, and our observations on activities abroad are included in Chapter 14, Foreign Operations.

7.32 The planning, control and management information systems, as well as such support services as finance and administration, personnel and national computer services, serve the whole of the Commission. They were excluded from this comprehensive audit and will be examined during the audit of the other components and activities of the Commission and the Department.

Observations and Recommendations

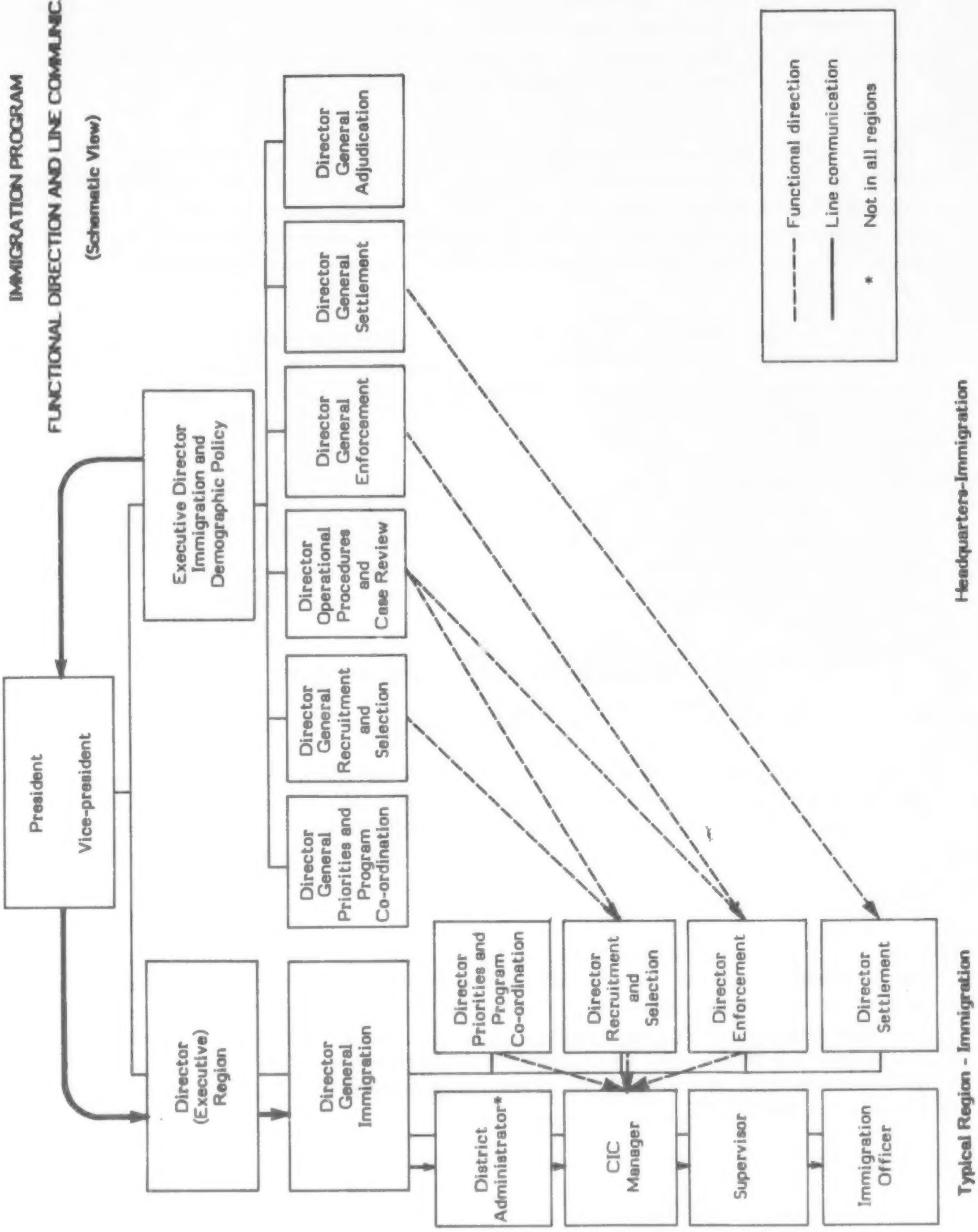
Operations

7.33 Exhibit 7.5 shows the relationships between the various Headquarters branches and the officers responsible for implementing the Immigration Program. Immigration Officers are under the line authority of CEIC regional directors; they do not report to the Executive Director of the Immigration and Demographic Policy Group.

7.34 The relationship between management of the Immigration Program at National Headquarters and the officers who implement the Immigration Program is one of functional direction. This form of organization makes a functional manager responsible for developing guidelines and prescribing the procedures and work methods to be used by employees under someone else's line authority. Such an arrangement is usually designed to standardize the decisions made and procedures used.

Exhibit 7.5

IMMIGRATION PROGRAM
FUNCTIONAL DIRECTION AND LINE COMMUNICATION
(Schematic View)


President
Vice-president
Executive Director
Immigration and
Demographic Policy
Director General
Priorities and Program
Co-ordination
Director General
Recruitment and Selection
Director
Operational Procedures and
Case Review
Director General
Enforcement
Director General
Settlement
Director General
Adjudication
Headquarters-Immigration
Director (Executive) Region
Director General Immigration
Director Priorities and Program Co-ordination
Director Recruitment and Selection
Director Enforcement
Director Settlement
District Administrator*
CIC Manager
Supervisor
Immigration Officer
Typical Region - Immigration
Functional direction
Line communication
* Not in all regions

7.35 We examined the functional direction exercised by Headquarters over the major activities of the Immigration Program: recruitment and selection, enforcement, adjudication and settlement.

Recruitment and Selection

7.36 Our audit of this component of the program focused on the guidelines, procedures and controls related to the selection of members of the family class, the "granting of landing" to applicants already in Canada and the issue of Minister's permits.

7.37 **The family class.** The family class has accounted for approximately 40 per cent of the total flow of immigrants to Canada in recent years. According to an internal Commission report, a significant portion of the movement in the family class does not correspond to the generally accepted definition of the family reunification principle. This class, as defined in the Regulations, includes many people who are not dependent on their sponsors and who establish separate households as soon as they arrive in Canada.

7.38 The Regulations state that members of the family class shall be selected on the basis of the following criteria: the undertaking of a sponsor, who must be either a permanent resident or a Canadian citizen; the applicant's state of health; and national and public security.

7.39 Recent studies conducted by the Immigration and Demographic Policy Group and by the Strategic Policy and Planning Division on the socio-economic characteristics of immigrants have shown that members of the family class are not well prepared to participate in the Canadian labour market. Although at least a third of the immigrants in the family class say that they want to work when they arrive in Canada, the Commission's studies indicate that the proportion who actually enter the labour force is even higher. However, there are generally no jobs waiting for them, and they have less training, work experience and knowledge of the official languages than immigrants in other classes. They often belong to occupational groups whose skills are in low demand in Canada and to age groups where the rate of unemployment is high. These studies raise questions about the ability of a significant proportion of the members of the family class to adapt to life in Canada; this could have repercussions on social programs and on the labour market.

7.40 The Commission has not conducted studies to determine whether the selection criteria used for these immigrants and their sponsors provide any assurance that the immigrants will be able to become successfully established in Canada, as required by section 115(1) c of the Act. Nor do the Regulations define the expression "successfully established in Canada". However, Immigration officials told us that they consider any immigrant not on social assistance or otherwise a burden on the state to be "successfully established".

7.41 The Commission should determine whether the selection criteria used for family class immigrants and their sponsors provide any assurance that these immigrants will be able to become successfully established in Canada.

> The Commission agrees that it should evaluate its selection systems as they relate to the three classes of immigrants being selected for entry into Canada, and agrees that studies in this area should be conducted on a regular basis. With specific regard to the family class, two such projects are under way which will be completed early in 1983.

7.42 The selection process for members of the family class contains loopholes and thus lends itself to abuse, because the only specific criterion is the sponsor's undertaking to help the immigrant become successfully established in Canada. The process has been greatly simplified in order to promote the family reunification objective set out in the Act. Moreover, this class of immigrant is given priority in processing.

7.43 This gives rise to cases where the selection system is circumvented. Immigrants who are not bona fide members of the family class can take advantage of various loopholes to obtain immigrant status and admission to Canada.

7.44 Engagements and marriages of convenience, even pregnancies of convenience, unverifiable or dubious family relationships and false or altered documents are some of the methods used; the form they take varies with the year and the country of origin. Regional offices and posts abroad regularly inform Headquarters of the unlawful tactics used by applicants to get into Canada. Many of these ploys are designed to obtain landed status for young people about to enter the labour market.

7.45 The phenomenon of "courier parents" is a common example of this. When parents obtain immigrant visas, dependent children under 21 are almost always granted immigrant visas as well. In addition, many dependents over the age of 21 are granted landing by Order in Council so that they can accompany the person who supports them to Canada. According to estimates by a major Immigration office abroad, approximately 50 per cent of parents with children around 21 years of age return to their country of origin as soon as or even before their children settle in Canada. Thus, a procedure designed to reunite families actually has the opposite effect.

7.46 Because Headquarters does not systematically collect data on the nature of the abuses and loopholes that come to the attention of Immigration Officers, it can neither analyse nor assess the magnitude of the problem. However, every Immigration Centre (CIC) and post we visited during our audit reported such practices.

7.47 Without an information and analysis system, Headquarters cannot curb these practices. To do so, it would have to pass judgement on the intentions of applicants, and such judgements have often been challenged successfully before the Immigration Appeal Board and the courts.

7.48 **The Commission should implement a system for gathering information on the nature of abuses and loopholes in the system for selecting family class immigrants, analyse this information, and take the necessary measures to close loopholes and curb abuses.**

> The Commission agrees with the recommendation. Information the Commission has been collecting will be organized in a systematic way, and regular analyses will be conducted and reported so that appropriate measures and corrective action may be taken where necessary.

7.49 **Applicants in Canada.** The 1976 Immigration Act requires immigrants to obtain a visa before arriving at a port of entry. This general requirement was introduced because of the situation that existed shortly before the 1976 Act was passed. The 1974 Green Paper on Immigration stated that in 1972, "more than one-third of those admitted as immigrants had not undergone examination or selection before coming to Canada" and that "the effectiveness of the selection process abroad was undermined".

7.50 More than 10 per cent of all immigrants are granted landing in Canada by Order in Council. They submit applications after being admitted to the country as visitors or on Minister's permits instead of waiting for their cases to be dealt with at Immigration offices abroad.

7.51 Because the Commission's official position is that applications submitted in Canada are unacceptable, it has no procedure for processing them. However, guidelines give examples of cases where it would be appropriate for Immigration Officers to recommend that the Governor in Council grant landing to persons already in Canada. Immigration Officers thus have discretion to decide which cases should be examined for purposes of making such recommendations. Some regions or individual immigration centres have established internal procedures for reviewing these recommendations before sending them to Headquarters.

7.52 In this way, since the Act came into force on 10 April 1978, some 65,000 applicants from within Canada have obtained authorization to settle here. This figure does not include those who applied for authorization while they were still outside the country but did not obtain it until after they had arrived in Canada.

7.53 According to the Commission's figures, which are not complete, most of those who are granted landing in Canada are members of the family class; the 65,000 figure also includes about 10,000 members of special movements of refugees and designated classes.

7.54 Thus, a situation that was criticized in the Green Paper, and which the 1976 Immigration Act was intended to remedy, has still not been resolved.

7.55 We observed that Headquarters neither adequately nor systematically controls and monitors the use of this exceptional and discretionary power; it simply checks that the forms have been properly filled out and draws up alphabetical lists of the orders submitted to the Governor in Council.

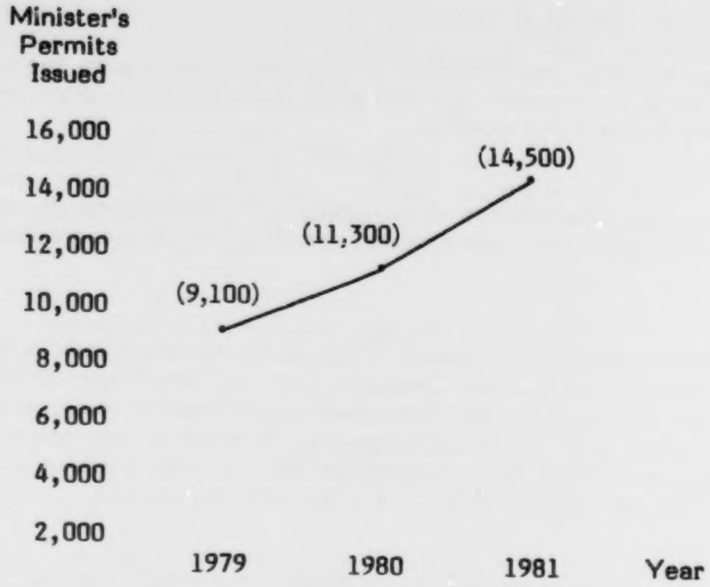
7.56 **The Commission should ensure that the exceptional nature of the power to grant landing in Canada is preserved, controlled and monitored.**

> The Commission agrees to improve control and follow-up in this area. National Headquarters will implement additional procedures in line with the Auditor General's recommendation.

7.57 **Minister's permits.** The Minister's permit is an instrument for the discretionary granting of temporary status to a person who has violated the provisions of the Immigration Act or who is inadmissible to Canada for a specific reason. This discretionary power is delegated to the managers of Immigration Centres and visa offices abroad.

7.58 Permits are issued to, among others, applicants who have not obtained visas, persons who have committed offences in other countries which, if committed in Canada, would be punishable under an Act of Parliament, visitors who appear at Immigration Centres after their visas have expired and persons who are ill and come to Canada for treatment.

7.59 As shown in the accompanying graph, the use of Minister's permits has become more common over the years.



7.60 In addition, approximately 11,800 Minister's permits were renewed in 1981, bringing to 26,300 the total of permits issued or renewed that year, according to Commission figures.

7.61 More than 90 per cent of Minister's permits for people seeking entry to Canada are issued to members of a class designated as "other inadmissible persons" in the Report to Parliament on Minister's permits. Despite the size of this class, Headquarters has conducted no analysis of the grounds for issuing these permits or of the increase in their numbers. Nor does it exercise adequate control over their issuance. Moreover, fewer than 15 per cent of Minister's permits are issued to people covered by special programs for refugees and designated classes.

7.62 **National Headquarters should establish systems for monitoring and analysing data on the issue and renewal of Minister's permits.**

> The Commission agrees with the recommendation of the Auditor General. A revised system of coding will be introduced to provide more detailed information as to the recipients of such permits for information and monitoring purposes.

Enforcement

7.63 In Canada, this component of the program deals with the admission and monitoring, inside the country, of immigrants and visitors, a class which also includes temporary workers and students.

7.64 Our audit covered the management of the following activities: primary examination, secondary examination, intelligence, investigations, arrests and detentions.

7.65 **Primary examination.** Since 1964, Customs and Excise Canada has examined all those seeking to enter Canada. Customs and Excise Officers thus act on behalf of the Employment and Immigration Commission in carrying out the primary examination of visitors and immigrants. They refer immigrants, certain visitors, including those who require authorizations, such as students and temporary workers, to Immigration Officers for a secondary examination.

7.66 Although Customs and Excise Officers have been carrying out this delegated activity for more than 18 years, the Commission and Customs and Excise Canada have not yet established clearly and formally their respective roles and responsibilities or determined who is accountable for such primary examinations. Negotiations to this effect began in February 1980 and were still going on at the time of our audit.

7.67 Some commission managers have expressed concern on several occasions about the reliability of primary examinations. Immigration centres at certain ports of entry have compiled lists of the most flagrant errors that have been brought to their attention: immigrants being admitted without having been through the secondary examination, unauthorized temporary workers, visitors without valid documents for entering Canada or returning to their countries of residence.

7.68 Our audit revealed that the Commission has no mechanism for ensuring that admissions authorized by Customs and Excise Officers are proper and appropriate. This deficiency is particularly significant because a person who has been through the primary examination is recognized as having been admitted to Canada. Even if an error is detected immediately after the examination, the person must be dealt with according to the rules applicable to inland control, which are much more complex and onerous, because the burden of proof shifts from the person arriving in Canada to the Commission.

7.69 The Commission has conducted a number of studies designed to measure the effectiveness of the primary examination at major Canadian airports. These studies showed that the primary examination was not an effective means of determining who should be referred for a secondary examination. However, they could not determine what changes would make the process more effective. They revealed that procedures at the various ports of entry never varied, making it easy for those wishing to do so to enter Canada fraudulently.

7.70 No follow-up action has been taken on these studies; their recommendations aimed at improving control at ports of entry have not been implemented because Immigration managers did not feel the studies were conclusive.

7.71 We noted that, at several ports of entry, persons sent for a secondary examination were not kept under surveillance owing to operational procedures or the layout of the facilities. In particular, at some of the most important land entry ports, those referred for secondary examinations must drive to an area some distance from the primary examination booth. During peak periods, it is not always possible to ensure that they stop and report to the Immigration office.

7.72 Two lists indicate to the Customs and Excise Officers which arrivals should be sent for secondary examination. The first list sets out categories of persons who must automatically report to the Immigration Officers; the second, on microfiche, gives the names of inadmissible persons. Contrary to established procedure, and although the list of names on microfiche is regularly amended and updated, the Customs Officers seldom consult it because of the inconvenience of using the microfiche reader.

7.73 The errors detected through effectiveness studies and by Canada Immigration Centres relate to the first list. There were instances of persons required to report for the secondary examination who were not told to do so, and thus were admitted without a thorough examination or without the necessary authorizations, while others who were obviously admissible were sent for a secondary examination.

7.74 The effectiveness of the primary examination, therefore, depends primarily on the ability of the Customs and Excise examining officers. The majority of these are not specialists in primary examinations because they are frequently rotated among a number of functions.

7.75 The Commission has introduced some training for Customs and Excise Officers. However, we noted that not enough officers have been given this training; consequently, Customs and Excise Officers are not always appropriately prepared to carry out the Immigration aspect of their responsibilities.

7.76 The Commission and Customs and Excise should without delay enter into an agreement defining clearly their respective roles and responsibilities concerning the primary immigration examination.

7.77 The Commission should, in co-operation with Customs and Excise, try to improve the effectiveness of the primary examination through:

- **better use of methods for detecting inadmissible persons;**
- **closer surveillance of persons who are to report for the secondary examination; and**
- **training for every officer assigned to the primary examination.**

> The Commission agrees that the agreement with Customs and Excise should be concluded, and steps are under way to achieve this objective as soon as possible.
>
> It is agreed that the Commission should continue to work toward ensuring that Customs and Excise provides training to all officers performing the Immigration primary examination function at ports of entry. There are currently three methods of training -- self-instruction manuals, classroom training and rotational training -- at the Customs and Excise College in Rigaud, Quebec. The Commission also agrees that immediate steps should be taken to improve the effectiveness of primary examinations and will further explore this area to meet this objective.

7.78 **Secondary examination.** Each year, at the principal ports of entry, the Immigration Officers receive approximately 2,300,000 immigrants, visitors requiring authorizations and doubtful cases for secondary examination.

7.79 Admissions authorized by examining officers cannot be appealed, and few such decisions are documented. However, unfavourable decisions are subject to a review process comprising numerous stages designed to ensure that no one is arbitrarily or unnecessarily denied the right to enter Canada. Because of the requirements of the review process, the examining officer, in effect, must prove that those he is refusing to admit are not admissible to Canada, even though, under the Act, the onus of proof is on the person seeking admission.

7.80 A refusal of admission is immediately reviewed by a Senior Immigration Officer, who orders an inquiry before an adjudicator if he believes that the decision was proper and the person in question does not leave the country voluntarily. A Senior Immigration Officer may review the case again at any time, even if an inquiry has been ordered. If an inquiry is held, the adjudicator decides whether the person concerned should be admitted or removed. In certain cases, this decision can be appealed to the courts.

7.81 As in the case of primary examinations, National Headquarters thus has no control mechanism for ensuring that the admissions authorized by examining officers following the secondary examination are proper and appropriate. It therefore cannot account for them. Headquarters maintains that it need not establish such controls because it is up to line managers to exercise them. It also claims that few people seek to enter Canada illegally, and those who succeed in doing so will eventually be caught through various filters in Canadian society, such as police forces.

7.82 **National Headquarters should establish mechanisms for controlling, by test checks or other means, the appropriateness of admissions authorized at the secondary examination stage. These mechanisms should not, however, create additional documentation.**

> The Commission agrees to further explore mechanisms to evaluate the relevance of the cases authorized at secondary examination. The principal means by which effectiveness of the ports of entry system can be evaluated is by analysing the nature of the enforcement cases surfaced by the various filters in place through which illegals are identified, such as local law enforcement agencies and the RCMP.

7.83 The Commission has established a computerized data bank containing information on immigrants and visitors, to which most major Immigration Centres in the country have direct access. Although not all CICs are equipped with terminals, and even those that are do not always have a sufficient number of them, this system has made it possible to improve greatly the information available to the officers and, consequently, the quality of their decisions. The Commission plans to make this data bank interactive by September 1984, thereby further improving its usefulness.

7.84 **Intelligence network.** The Commission maintains a network of immigration intelligence officers. These officers are located in the regions and act under the authority of the regional director of immigration. Their role includes gathering and analysing information on immigration, as well as providing liaison with other intelligence agencies and police forces.

7.85 In principle, the work of the officers should make it possible to control questionable and fraudulent immigration activities. We noted that the network was accumulating a large amount of information. On the other hand, since this information is not being used systematically for purposes of immigration control, management does not have analyses and forecasts of questionable and fraudulent activities that would enable it to take the appropriate action, and the efforts being made to detect and break up illegal immigration networks are proving insufficient.

7.86 Last year, National Headquarters and certain of the regions took steps to rectify this situation; significant progress has been made in this regard.

7.87 Immigration Program management should ensure that the intelligence network is helping to control questionable and fraudulent immigration activities, in particular through systematic analysis and use of the information gathered.

> The Commission agrees to continue to improve the collection and analysis of intelligence information as part of its ongoing improvements to its enforcement program.

7.88 **Investigations, arrests and detentions.** In 1981, Immigration Officers conducted 70,064 investigations and made 2,857 arrests. They escorted 1,642 persons to ports of entry or even, in a few cases, to their countries of destination. Although National Headquarters receives reports on most detentions, it does not know how many people in all were detained in the various regions or the total number of detention days.

7.89 Although under the Immigration Act all Immigration Officers have the powers of a peace officer, including authority to arrest without a warrant, it is mainly investigators who are called on to make such arrests.

7.90 Our audit revealed that investigative activities were organized at the local level by regional offices and the CICs. There are consequently major differences in objectives, work methods and selection and training of investigators.

7.91 In several CICs, the investigators deal almost exclusively with contraventions that are brought to their attention; they initiate very few or no investigations aimed at uncovering such violations. Elsewhere, they initiate investigations and take part in raids on premises where persons alleged to be in Canada illegally may be working or residing.

7.92 National Headquarters does not communicate clearly to investigators what it expects of them. It has not formulated clear and specific objectives for the investigation function and does not monitor it. It does not ensure that the investigators receive appropriate training to enable them to apply the law uniformly and to prepare them to face the dangerous or sensitive situations in which they are likely to find themselves. According to National Headquarters, the Immigration Act does not require the Commission to play an active role in detection and prevention, and police forces, particularly the RCMP, have a clear mandate to enforce the laws of Parliament, including the Immigration Act.

7.93 Certain regions have begun to develop more specific policies to compensate for the lack of clear direction from National Headquarters. There is a risk that these initiatives will increase the discrepancies among the regions and lead to a duplication of effort.

7.94 National Headquarters should:

- **specify the objectives and roles of investigators within the Immigration Program; and**
- **provide work instruments and training and development for investigators and, where necessary, advice and technical information on work methods and the interpretation of guidelines and procedures.**

The Commission agrees to review the objectives and roles of investigators within the Immigration Program. A National Training Program has been developed for investigators over the past year and a half and is currently being implemented.

Adjudication

7.95 The Adjudication Directorate, unlike the other National Headquarters directorates, exercises complete line authority. It has authority over all immigration adjudicators in Canada.

7.96 This particular form of organization results from the desire of National Headquarters to give adjudicators a special status within the Program to ensure that adjudicators who will be deciding cases remain independent from the officers who refer the cases to them.

7.97 There are approximately 75 adjudicators located in 18 Canadian cities. They preside over immigration inquiries held to determine the admissibility of persons refused entry by examining officers and the legality of the status of those who have allegedly violated the Immigration Act. In addition, adjudicators conduct periodic hearings to decide whether an individual should be held in detention pending determination of his or her status or departure from Canada.

7.98 Under the Act, adjudicators must impose the appropriate penalty -- either removal, departure notice or deportation -- if they find that the person in question is inadmissible or that his status is illegal. All these sanctions require that the person concerned leave the country.

7.99 Owing to the severity of the Act in this regard, National Headquarters wanted to ensure that the decisions of adjudicators across Canada were highly uniform and complied strictly with the requirements of the Act.

7.100 Our audit revealed that the adjudicators have supervisors to whom they can turn for assistance with complex cases and who systematically review a selection of their decisions. They have clear procedures set out for them and are quickly notified of any precedents created by the appellate courts.

7.101 We found that the Adjudication Directorate at Headquarters was providing effective direction to adjudicators.

Settlement

7.102 The objective of the Settlement Program component is to help immigrants settle and adjust, so that they may become full participants in Canadian society as soon as possible. Our audit dealt with two aspects of settlement: adjustment assistance and loans to immigrants.

7.103 **Adjustment assistance.** The purpose of this activity is to provide the essentials for needy new immigrants until they can provide for themselves. The assistance given is usually the equivalent of current social welfare rates in the province of residence.

7.104 Recent movements of refugees and persons belonging to designated classes sponsored by the federal government have led to a rapid increase in the size of the Adjustment Assistance Program.

7.105 Under this program, the Commission has made the following contributions:

Fiscal year	Contribution (thousands of dollars)
1978-1979	$ 2,716
1979-1980	16,611
1980-1981	32,866
1981-1982	20,299

7.106 The Settlement Branch is responsible for the program and the budget allocated; it determines the guidelines for the program and has its terms and conditions approved by Treasury Board. The employment and insurance sector is responsible for implementation of the program and for payments to recipients. Our audit indicated that the Commission's guidelines and procedures were not clear or complete enough to ensure uniform implementation of the program. For example, depending on their interpretation of the guidelines, some Employment Centres would give loans to immigrants, while under the same circumstances other Employment Centres would give them contributions.

7.107 **The Settlement Branch, in co-operation with the managers and officers of the employment and insurance sector, should clarify and complete the Adjustment Assistance Program guidelines and procedures.**

The Commission agrees with the recommendation. The National Adjustment Assistance guidelines are under continual revision, in consultation with the regions, to improve their clarity and to respond to changing requirements.

7.108 Because of the division of responsibility between the immigration sector and the employment and insurance sector, management of this program is complicated and requires elaborate control systems.

7.109 At the time of our audit, the management and information systems of the Settlement Branch at National Headquarters did not allow for proper control and accountability for the program. The information system being used did not enable National Headquarters to control costs, determine their nature or take corrective action as needed. For example, program management did not know the unit cost for each major expense category by region: tests on this data showed that regional reports were neither reliable nor comparable with each other. Because of incorrect data and circumstances such as the economic situation, National Headquarters twice had to request supplementary appropriations during the fiscal year 1981-82.

7.110 After study and consultation with the regions, the Settlement Branch introduced a new information system in April 1982, with a view to improving management of the program.

7.111 Financial control should normally ensure that assistance is given to immigrants in accordance with terms and conditions approved by Treasury Board and with internal procedures. Our examination, covering a sample of 100 files from seven of the largest employment centres in Canada, revealed various situations that involved failure to comply with these procedures and that had not been identified by the existing financial and administrative controls. We found the following errors, which were not detected by local or regional administrative services:

Type of error found	% of files examined
• Assistance provided for basic needs without the required monthly interview of the recipient	34
• Agreements with recipients not approved by a supervisor	18
• Benefits higher than provincial welfare rates without approval by the regional office	11

7.112 **The Commission should ensure that control of contributions and loans under the Adjustment Assistance Program complies with internal procedures and the terms and conditions approved by Treasury Board.**

> The Commission agrees to review its monitoring procedures with a view to increasing their effectiveness and improving conformity to the internal guidelines and Treasury Board terms and conditions governing the Adjustment Assistance Program.

7.113 We also observed that adequate procedures were not available to employment counsellors authorizing contributions for determining objectively and consistently whether immigrants requesting financial assistance were, in fact, eligible. Counsellors are thus required to provide funds for immigrants without determining whether their applications are well founded.

7.114 **The Commission should clarify current procedures to allow consistent and objective determination of the eligibility of applicants for contributions or loans under the Adjustment Assistance Program.**

> The Commission agrees to review its guidelines to ensure their effectiveness in promoting consistency and equitability. In this regard, three pilot projects are in effect which will provide for the independent investigation of Adjustment Assistance recipients on a sample basis.

7.115 **Loans to immigrants.** Loans may be granted to immigrants, refugees and persons in designated classes to assist them with transportation to Canada and settlement here. A revolving advance of $60 million is available to the Minister for this purpose.

7.116 Because many refugees have received these loans, the balance to be recovered has grown rapidly, as the following table shows.

At 31 March	Balance outstanding (millions of dollars)
1979	$ 3.7
1980	25.7
1981	40.5
1982	43.0

The high amount that refugees, on average, must repay, combined with their language problems and their still generally precarious economic situation, has created recovery problems.

7.117 Between 1 April 1980 and 31 March 1982, the Commission recovered $10.8 million of a total of more than $53.0 million outstanding.

7.118 In a sample of 100 of the 34,000 loans outstanding on 31 December 1981, we found that loans entered in the Commission's accounts were documented and recorded in a satisfactory manner.

7.119 In general, the Commission had not succeeded by that date in concluding lasting agreements with debtors to ensure prompt repayment of loans. By that time, moreover, collection officers had listed 9,100 outstanding loans for which the debtors had to be traced, representing about 25 per cent of the total number of loans and a value of $10,300,000. The officers had lost contact with these debtors. In the month of December 1981, the Commission received payments on only 9,000 of the 34,000 loans outstanding. Analysis of our sample gave the following averages:

- 2.6 months between granting of a loan and entering it in the system;
- 4.2 months before the first attempt to recover funds from debtors with accounts in arrears; and
- 4.9 months between each subsequent recovery attempt.

7.120 The Commission's recovery practices do not take into account the 1978 Immigration Regulations schedules concerning repayment schedules, including special provisions applicable to refugees and members of designated classes. In the sample examined, and according to the information on file, 95 per cent of the debtors showed average arrears of 14.8 months against repayment schedules specified in the Regulations. The total value of our sample of 100 loans was $118,778 on 31 December 1981, with payments overdue of $61,884, or 52 per cent of the total. Commission managers explained this situation by the large size of loans granted to refugees and the short repayment period provided by the Regulations.

7.121 Under the Regulations, the Commission collects no interest on loans to refugees or persons in designated categories. Consequently, any delay in repayment by immigrants in these categories reduces the current value of Canadian government assets represented by these loans.

7.122 The computerized control system now used does not provide relevant information for proper control of the recovery activities of Financial Services. Collection officers did not have reports showing for each debtor repayment agreements, any arrears under these agreements, and the dates and amounts of the most recent payments. The Commission has begun to develop a new computerized control system which should provide this information; its implementation is planned for early 1983.

7.123 The Commission should further improve its recovery standards and procedures for loans to immigrants and ensure that its information and financial management systems correspond to the size of the loan fund.

> The Commission agrees to continue to improve its standards and procedures of recovery and, to meet this objective, is developing a new system of information and control which will assist in the administration of immigration loans.

Specific Aspects of Management

7.124 We looked at three specific aspects of management of the program: control and monitoring systems, effectiveness evaluation, and evaluation of the program's efficiency.

Control and Monitoring Systems

7.125 The Immigration Program is characterized by the high degree of delegation to Immigration Officers and the autonomy these officers have in making decisions. The functional direction system, under which a National Headquarters directorate is responsible for preparing guidelines to be followed by Immigration Officers reporting to regional directorates, is also characteristic of the program.

7.126 For the Immigration Branch to maintain accountability for the program under this form of organization, it must have systematic control and monitoring procedures available with respect to the use of discretionary power by officers at all levels, while officers should be obliged to account for their decisions.

7.127 We noted that review of cases brought to its attention by representations following unfavourable decisions was the main mechanism established by National Headquarters to ensure that officers' decisions comply with the Act, Regulations and guidelines and to monitor these decisions.

7.128 This is a system of control by exception and only applies to those decisions that are unfavourable to the applicant. These decisions have already been reviewed at several CIC and regional organizational levels to ensure that they comply with the Act, Regulations and guidelines, and to make certain that the officer has considered all possibilities for using his discretionary powers on the applicant's behalf for humanitarian or compassionate reasons.

7.129 Furthermore, unfavourable decisions may be subject to review by Senior Immigration Officers, adjudicators, the Immigration Appeal Board or the courts, all of which constitute additional controls.

7.130 On the other hand, decisions by Immigration Officers in favour of applicants generally cannot be appealed; they are only rarely the subject of complaints, representations, inquiries or appeals to the courts. They are thus almost never brought to the attention of National Headquarters. Therefore, the main mechanisms available to National Headquarters for ensuring that decisions made by officers comply with the Act, Regulations and guidelines it issues do not apply where decisions are in favour of the applicant.

7.131 The regional administrations exercise certain controls, but these vary from one region to another. However, none of the regions we visited applied controls or supervision to favourable decisions that did not require documentation, such as admissions at the primary examination, most admissions authorized at the secondary examination, and the results of a number of investigations and status checks.

7.132 **The Commission should establish systematic control and monitoring procedures to ensure that officers' decisions comply with the Act, Regulations and guidelines.**

> The Commission agrees to review its systems of control and follow-up in order to ensure that the officers' decisions are consistent with the Act and Regulations and make improvements where required.
>
> In addition, the Commission will review and strengthen its functional relationship between Headquarters and the field in order to enhance its monitoring role vis-à-vis the regions.

Evaluation of Program Effectiveness

7.133 Measurement of the Immigration Program's effectiveness is the responsibility of the Program Evaluation Branch, within the Strategic Policy and Planning Group. Monitoring program effectiveness is the responsibility of program managers. The evaluation mandate and responsibilities are now governed by the Department's program evaluation policy, issued in May 1982.

7.134 Our examination of the methods used to measure and report on the program's effectiveness covered the long-term evaluation plan, the effectiveness studies on the primary examination activity conducted at Mirabel Airport in 1978 and Vancouver Airport in 1981, and the evaluation of the Private Sponsorship of Refugees Program completed in May 1982. In addition, we examined the effectiveness indicators used by program managers.

7.135 Since the Immigration Act came into force in 1978, evaluation of the Immigration Program has been very limited; only two components have been examined for effectiveness. These two components are the primary examination, which is part of the law enforcement activity already discussed in this chapter, and the Private Sponsorship of Refugees Program, which is part of the Settlement activity.

7.136 In May 1981, the Program Evaluation Branch developed a long-term evaluation plan indicating the Immigration Program components and activities that will be evaluated for effectiveness. We found the plan to be complete and noted that the program will be evaluated over a five-year period, starting in 1981-82. The evaluation schedule has been approved by the Audit and Evaluation Committee.

7.137 **Primary examination.** The Mirabel and Vancouver studies both tried to determine the effectiveness of the primary examination and, if appropriate, to recommend changes to the procedures for referral for a secondary examination, to improve the effectiveness of that procedure.

7.138 After analysis of these studies, we found that the methodology used did not allow a definite conclusion concerning the need to change the mechanism for referral to the secondary examination. The Program Evaluation Branch should first have carried out an evaluation assessment study which would have enabled it to detect the weaknesses in methodology used.

7.139 We also noted that the reports on these studies were not submitted to the Deputy Minister.

7.140 During its study of the Private Sponsorship of Refugees Program, the Branch corrected these deficiencies by adopting the Department's program evaluation policy.

7.141 **The Private Sponsorship of Refugee Program.** The purpose of the Private Sponsorship of Refugees Program was to foster the rapid adjustment of refugees to Canada and to involve Canadians directly in the resettlement program.

7.142 When the Program ended in 1981, the Evaluation Branch conducted an evaluation to determine its effectiveness in relation to other methods of settlement and to assess the potential for reviving it in the future.

7.143 In our opinion, this evaluation was properly performed.

7.144 **Ongoing effectiveness monitoring.** The Commission has established selection criteria that should allow it to ensure, among other things, that immigrants are selected for their ability to adjust to life in Canada and that the

Immigration Program contributes to meeting the needs of the Canadian labour market for skilled labour. Our comments on the criteria for selecting members of the family class are set out in an earlier section.

7.145 We observed that the Commission had not developed effectiveness measurement systems in sectors where it would have been possible to do so. For example, the Commission has virtually no information on immigrant adjustment in Canada. The most recent studies on adjustment to life in Canada by independent immigrants were based on 1976-78 data. Adjustment by members of the family class has never been studied. Nor does the Commission survey the public to measure the reception of immigrants by Canadians. Information on adjustment by refugees has only been available since 1982.

7.146 The Commission should establish effectiveness indicators to obtain more information on adjustment by immigrants to Canada for reporting on the program's effectiveness.

> The Commission agrees with the recommendation and will continue to proceed with a systematic evaluation of the effectiveness of the Immigration Program and, for each evaluation, will establish additional performance indicators as required.

Evaluation of Program Efficiency

7.147 The 1979 SPICE report recommended to the Commission that the performance measurement systems be reviewed for the purpose of determining:

- the activities for which standards, validated by work measurement techniques, could be established;
- whether a more uniform set of standards could be established for application in all regions; and
- whether the systems could be used in determining actual efficiency levels, to ascertain potential for improving efficiency.

7.148 The Commission created the Performance Measurement Steering Committee (PMSC) to guide development and co-ordination of performance measurement methods and promote their use within the Commission.

7.149 The policy announced by the PMSC on 9 May 1979 assigned responsibility for performance measurement and time standards within the Commission and the Department to the Executive Director, Finance and Administration. In addition, the PMSC assigned responsibility for identifying areas for which efficiency and effectiveness could be improved to the various program directors. National Headquarters task forces were given responsibility for recommending implementation of performance indicators and for determining National Headquarters requirements concerning establishment of additional indicators.

7.150 However, implementation of performance measurements and subsequent monitoring of efficiency are left to the discretion of the regions. There is a risk that the lack of clear, firm direction on performance measurement may result in corrective action not being taken at the operational level.

7.151 The PMSC has selected areas for establishing standards on the basis of the benefits expected from implementing them. Since the Immigration Program represents only 10 per cent of the Commission's person-years, it was given lower priority than the employment and insurance programs. A plan was prepared for determining time standards for the Immigration Program. Recruitment and selection activities, which employ 20 per cent of the person-years, were given priority; the Commission expected to complete time standards for these activities in 63 weeks. At the time of the audit, no work plan had been set up for the other major components of the Immigration Program.

7.152 The Commission now uses a management information system, one purpose of which is to process data required to measure and report on performance in Immigration activities. Although our audit did not include an examination of the system, it revealed that the performance indicators currently being processed by the system do not provide a true and complete measurement of performance. The efficiency measurement being used is the variance between the budgeted unit cost and the actual unit cost. In fact, the budgeted unit costs are not calculated according to time standards that take the desired level and quality of service into consideration. Therefore, the budgeted unit costs cannot be used for performance measurement or for improving productivity. The Commission is thus not yet in a position to monitor performance effectively in the Immigration Program.

7.153 For effective monitoring of performance and improvement of productivity in Immigration activities, the Commission should:

- **pursue the structuring of a system of reports on performance which would:**
    - **establish standards in all cases where this would be feasible,**
    - **compare outputs to standards and identify variances,**
    - **identify those offices, districts or regions where performance is unacceptable,**
    - **compare current resource levels with those required to perform the work at a given level of efficiency,**

- **ensure that managers at all levels are held responsible for taking the action required to improve performance.**

The Commission feels that the recommendation of the Auditor General is consistent with the approach adopted by its performance measurement initiatives, and particular emphasis will be placed in the areas highlighted by the Auditor General.

DEPARTMENT OF AGRICULTURE

DEPARTMENT OF AGRICULTURE

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8

DEPARTMENT OF AGRICULTURE

SYNOPSIS

8.1 The Department of Agriculture was established in 1867, with the primary task of controlling livestock diseases. The Experimental Farms System was set up in 1886 to provide assistance to farmers in improving resource utilization. Since then, the Department has expanded its role to keep pace with the growth and development of the Agri-Food industry until today its staff numbers more than 10,000 and it administers about 40 Acts of Parliament.

8.2 The overall objectives of the Department, as published in its 1980-81 annual report, are:

- to meet the needs of Canadians for nutritious and reasonably priced food;
- to provide farmers with a fair return for their labour and investment; and
- to make the most of opportunities in export markets.

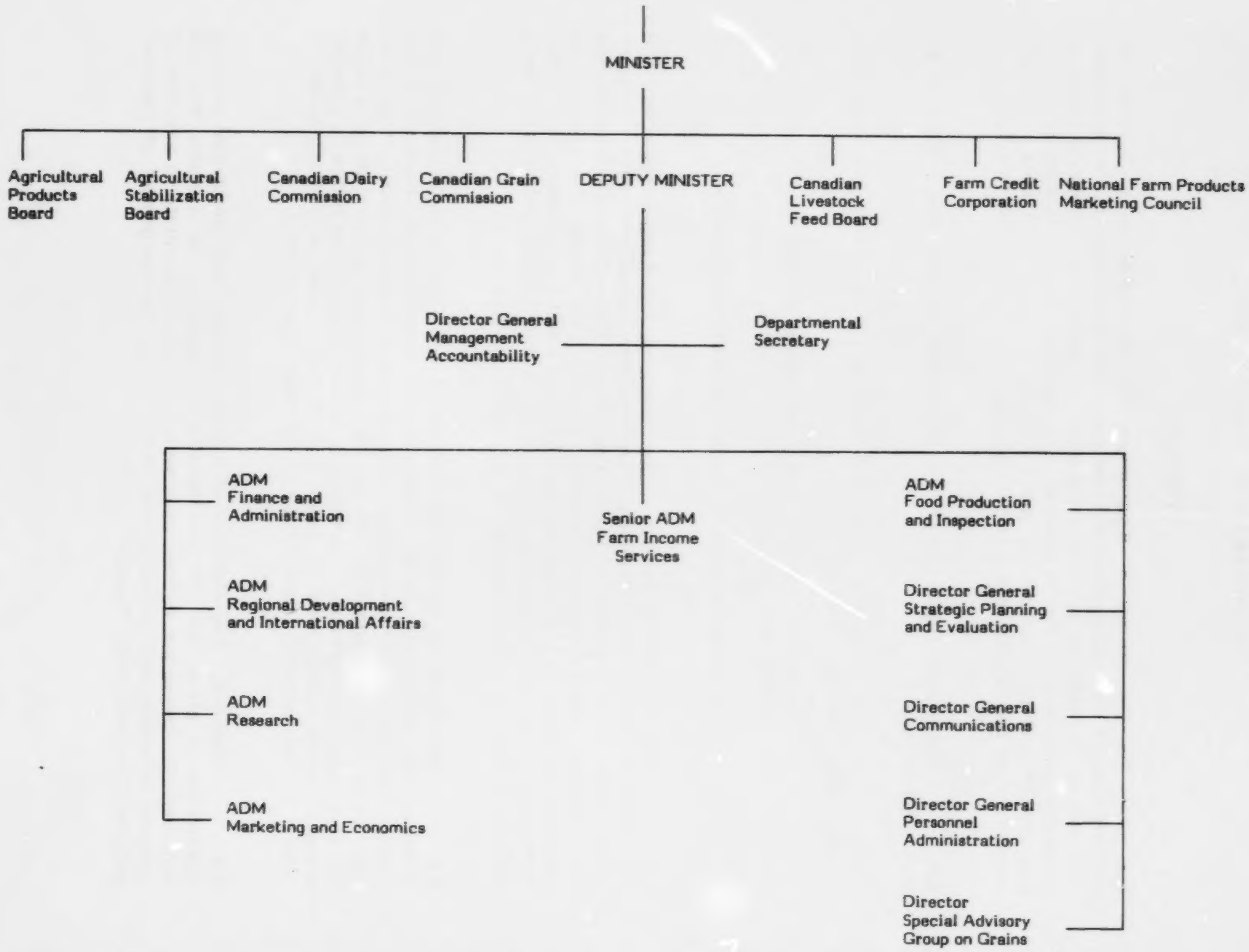
8.3 The Department has two major programs, Agri-Food Development and Agri-Food Regulation and Inspection. The Canadian Dairy Commission, Canadian Grain Commission, Canadian Livestock Feed Board, Farm Credit Corporation and the National Farm Products Marketing Council fall within the agricultural portfolio, as shown on the Organization Chart in Exhibit 8.1; however, they do not form part of the Department but report direct to the Minister and have not been included in this comprehensive audit.

8.4 We found no serious deficiencies in the Department's planning and management activities. Major changes in the organizational structure of the Department and in its management processes were initiated about three years ago. Some of these changes are not yet fully operational and thus there is scope for continued improvement. The majority of our observations relate to problem areas of which management is aware and, in most cases, is in the process of resolving. The following is a summary of our main observations.

8.5 **Planning.** The elements of a good strategic and operational planning system are in place, but the mechanisms for applying the systems are still evolving. Strategies are defined in broad terms that often relate to a number of program objectives and organizational units, making the assignment of responsibility and the evaluation of progress difficult.

Exhibit 8.1

DEPARTMENT OF AGRICULTURE
ORGANIZATION CHART - 31 MARCH 1982


MINISTER
Agricultural Products Board
Agricultural Stabilization Board
Canadian Dairy Commission
Canadian Grain Commission
DEPUTY MINISTER
Canadian Livestock Feed Board
Farm Credit Corporation
National Farm Products Marketing Council
Director General Management Accountability
Departmental Secretary
ADM Finance and Administration
ADM Regional Development and International Affairs
ADM Research
ADM Marketing and Economics
Senior ADM Farm Income Services
ADM Food Production and Inspection
Director General Strategic Planning and Evaluation
Director General Communications
Director General Personnel Administration
Director Special Advisory Group on Grains

8.6 **Program effectiveness measurement and reporting.** To facilitate program evaluation, the Department has grouped resources and activities into program evaluation components with common objectives. The objectives of these components are not expressed in terms that would enable existing management information to be used in ongoing effectiveness monitoring. The Program Evaluation Division has, for a variety of reasons, consistently failed to achieve its planned output, with the result that no effectiveness evaluation studies have yet been completed.

8.7 **Human resource management.** Significant delays are being experienced in staffing key positions. The delays are attributable to a number of factors, including a lack of understanding of the staffing process, inadequate human resource planning and an inadequate definition of responsibilities for the training and staffing functions.

8.8 Human resource planning does not form part of the Department's work plans or long-term plans. Indeed, it is assumed in the planning process that a full complement of properly qualified staff will be in place all the time; however, over 300 of the existing complement of research scientists in the Research Branch may be retiring within four years. The Research Branch has recently developed a plan to provide for replacements but has not assessed the impact of the potential skill shortages.

8.9 **Financial management and control.** Most of the required systems for financial management are working well. However, the research programs do not have systems for reporting costs in relation to the results achieved from research projects. Until this type of data is available, the Department will not be in a position to prepare adequate expenditure information for Parliament in accordance with revised Estimates procedures.

8.10 Levies under the Prairie Farm Assistance Act were discontinued in 1972. The balance of $9 million remaining in the Prairie Farm Emergency Fund, in which the levies had been accumulated, has not been released.

8.11 **Research.** Following our government-wide audit of research and development, the Department undertook a number of improvements in its systems and procedures that resulted in better management systems in this area. There are still problems, however, relating to safety procedures in laboratories and the disposal of potentially dangerous waste. Responsibilities have not been assigned, nor have procedures been established, for co-ordinating, controlling and monitoring safety procedures and for handling and disposing of waste material. Since the laboratories handle materials dangerous to health, it is imperative that both the employees and the public be protected from risk of contamination.

8.12 **Agri-Food development.** The Record of Performance Dairy Program was established in 1905 to provide data for purposes of genetically improving dairy herds. By 1981, only 13 per cent of all dairy cattle in Canada were registered in this program. A review of the Department's role in the operation of the record of performance programs may be appropriate.

8.13 **Agri-Food regulation and inspection.** The quality of work being done in the regulation and inspection functions is monitored and controlled in most areas. In one area, Plant Quarantine, where the objective is to prevent the introduction, establishment and spread of plant diseases or pests nationally and internationally, the quality of inspection is not regularly monitored. This is a particularly vulnerable area because regular inspection staff is supplemented with untrained inspectors during peak periods. The potential risk to crops and to the export market is high.

8.14 The National Inspection Service (Meat Hygiene) incurred overtime costs in excess of $5 million in fiscal 1980-81 for inspecting and grading meat in packing plants and recovered only 60 per cent of this amount. Part of this under-recovery is due to differences in working hours between government employees and those in the industry.

Audit Scope

8.15 In our comprehensive audit of the Department of Agriculture, we reviewed:

- processes in place to plan the work of the Department;
- operational control mechanisms used to ensure the efficient delivery of programs; and
- procedures used to assess the results of the major efforts of the Department.

8.16 The objective of the review was to assess the extent to which due regard for economy and efficiency was being addressed in the management of the Department and to ascertain if there were reasonable procedures in effect to measure the results of its work.

8.17 Over the past few years, the Department has changed from a decentralized group of individual entities to a highly centralized conglomerate with distinct corporate authority centered at headquarters. Branch offices in the field are used for delivery purposes and market intelligence gathering. This structure creates a division of accountability where headquarters is responsible for economy and effectiveness, with field establishments being responsible for efficient delivery of departmental services.

8.18 Our audit was therefore structured to review the corporate management functions of planning and program evaluation as well as the efficiency of program delivery mechanisms in the field.

8.19 In reviewing the operations of the Research Branch, our audit was preceded by the government-wide audit of research and development, reported in Chapter 2 of our 1981 Report. Our audit was therefore limited to assessing the degree of integration of research planning, control and evaluation systems with department-wide systems, and to the changes undertaken since the 1981 review. We also examined health and safety practices within the Research Branch.

8.20 In auditing the efficiency of operations, we concentrated on the program delivery activities of the Agri-Food Regulation and Inspection Program because it accounts for approximately 43 per cent of the total human resources of the Department. Research accounts for about 40 per cent; the remaining resources are allocated to all other activities. The Agri-Food Regulation and Inspection Program is the major operating program and encompasses most of the functions where delivery of service to the public is involved.

Observations and Recommendations

Strategic and Operational Planning

8.21 **Planning systems and documentation.** The elements of a good strategic and operational planning system are in place. Improvements to the system have been made over the two year period since the system was developed in response to the IMPAC survey report prepared by the Office of the Comptroller General in April 1979. The mechanisms for applying the system are still evolving, and there is still room for refinements.

8.22 The Department has made special efforts to document its planning systems and to train managers in their use. To date, the primary focus of these efforts in defining roles and responsibilities has been on the operational manager. This emphasis has meant that the role of support groups, in particular Finance and Personnel Branches, in the planning process has not been fully defined. In addition, the integration of information provided by different management systems and the planning process is not complete. For example, the strategic planning process could be further enhanced with information from Program Evaluation on program effectiveness and from Finance on financial analysis of previous year's expenditure and the cost of alternative strategies.

8.23 **The Department should ensure that the roles of support groups in the planning process and the relationship of planning with other management systems are more clearly defined and documented.**

> The Department agrees with this recommendation. As the planning systems have evolved, the roles and relationships of Finance, Personnel and Strategic Planning have also evolved. So also has the linkage between the planning and other management systems. These roles, relationships and linkages will be made explicit and documented by March 31, 1983.

8.24 **Objectives.** The Department has a well defined hierarchy of objectives which ensures that operational planning at the responsibility centre level reflects departmental aims and objectives. This hierarchy provides a basic framework for developing strategic and operational plans. However, responsibility for some departmental sub-objectives in this hierarchy are split between two or more operational branches in the Department. For example, the departmental sub-objective covering market maintenance has three lower level objects, one of which (market development and economic analysis) is the responsibility of the Marketing and Economics Branch, while the other two (grading and monitoring and export marketing services) have been assigned to the Food Production and Inspection Branch. No formal mechanisms are in place to ensure co-ordination and integration of plans for these sub-objectives. The Department is aware of these deficiencies through reviews by corporate staff groups and is currently working to improve the situation.

8.25 **Strategic plans.** The Department's Strategic Planning Information Base is the primary source document for the strategic planning process. Although this document presents a good assessment of the environment and identifies future challenges and possible strategies, it does not present alternatives complete with projected costs and benefits, thus limiting the value of the document to the decision maker.

8.26 The output of the strategic planning process is a Deputy Minister's Priority Memorandum identifying departmental "challenge strategies". The Priority Memorandum provides general guidance to managers on the preparation of operational plans. A feedback mechanism built into the planning system provides for the elaboration of strategies at successively lower levels within the Department. We observed that the challenge strategies in the memorandum were expressed in very broad terms, often relating to a number of program objectives and organizational units. In addition, there was no indication of an assigned priority for strategies relative to current departmental activities and resources.

8.27 **Alternative strategy proposals presented in the Strategic Planning Information Base should be supported with analysis of the possible costs and benefits accruing from such strategies.**

> The Department responds that alternative strategy proposals do not lend themselves to detailed quantitative cost and benefit analysis. Such analysis is more appropriate to operational action plans which have been requested by the Deputy Minister in his 1982 Priority Memorandum. However, in the next iteration of the Strategic Planning Information Base, a serious attempt will be made to provide a descriptive analysis of the pros and cons of each proposed strategy and, where possible, to include quantitative assessment.

Program Effectiveness Measurement and Reporting

8.28 In July 1977, the Department initiated a corporate planning and evaluation function. This was one of a series of steps designed to provide more corporate direction and control to the Department's operating branches, which had traditionally enjoyed a high degree of autonomy. During the first year, emphasis was placed on developing the planning function. In 1978, a Program Evaluation and Audit Committee was created and a Departmental Policy on Program Evaluation was approved.

8.29 Since 1978, the Program Evaluation Division has devoted much of its effort to organizing the evaluation function. The 1978 policy on Program Evaluation was revised and adopted in 1980. In 1979, the Department's programs were divided into 45 components to be evaluated over 10 years. In 1981, the components were redefined, with 35 new components scheduled for evaluation over seven and one-half years. Further revisions to the program components are currently under way. A substantial amount of work was devoted to developing a Program Evaluation Methodology Manual which is still unfinished.

8.30 At the time of our audit, the Division had completed four studies, none of which was an effectiveness evaluation. They included the review of the Information Program and evaluation assessments of Production Development - Animals, Production Risk Protection Programs and Market Development and Economic Analysis. The study of the Information Program was a management review, and was not examined.

8.31 The Program Evaluation Division has consistently failed to meet its planned output of evaluation assessments and evaluation studies. This is at least partly because of delays in obtaining resources and competing demands on the Division, such as those of central agencies. The evaluation assessments produced by the Division are generally satisfactory.

8.32 Performance indicators are being compiled to assess progress in achievement of work plans. Over the past several years, the Department has made considerable progress in rationalizing its objectives and sub-objectives. To complete the process, the objectives of program components need, wherever feasible, to be stated in terms that enable their achievement to be measured. It is likely that some of the performance indicators could serve as ongoing measures of the achievement of the objectives of program components.

8.33 Administrative responsibility is not established for some program components. Most of the program components fall entirely within a single branch and so are the responsibility of branch management at some level. However, because some components involve activities in two or more branches, responsibility for accomplishment of program objectives has not been specifically assigned.

8.34 **For ongoing monitoring of program effectiveness, the Department should use the readily available data prepared by program managers.**

> The Department responds that the information available from program managers is, generally speaking, oriented to operational goals. In many instances, effectiveness indicators still need to be developed for the program. Emphasis is currently being placed on the need for development of program effectiveness indicators in the preparation of evaluation frameworks.

8.35 **The Department should ensure that the evaluation assessments and program evaluation studies are completed as scheduled.**

The Program Evaluation Division is now fully resourced and, with the benefit of increased experience in the conduct of program evaluations, improved performance against plans will be achieved.

8.36 **Responsibility for each program component should be assigned to a specific senior officer.**

The Department agrees that it is desirable to assign a program component to a specific senior officer, if possible. During the current review of the program activity structure, this concern is being taken into consideration.

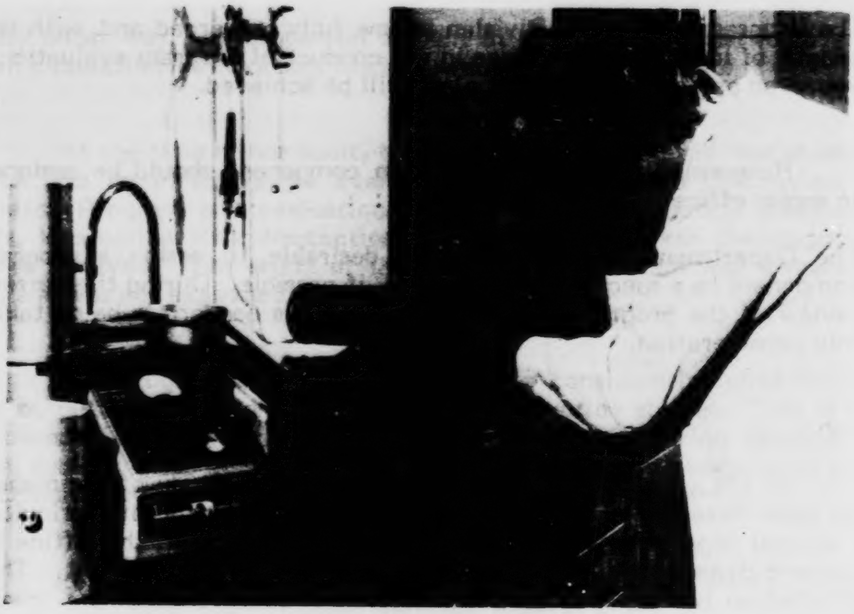
Research

8.37 In 1981, we reported on a government-wide study of the management controls over Research and Development. The Department of Agriculture was one of several departments included in the study. This year, the Office included the Research Branch in the comprehensive audit of the Department. This audit concentrated on two aspects: the integration of research planning, control and evaluation systems with departmental systems; and changes in research management systems since the previous study.

8.38 **Planning.** Recent changes introduced at the departmental level have aligned Research Branch planning more closely with departmental objectives. These changes involved a restated program/activity structure, revised branch organizational structure, increased regionalization, revised operational systems, and an increased emphasis on department-wide strategic planning.

8.39 The Research Branch planning process is linked to the departmental planning process through the Deputy Minister's Priority Memorandum. The planning process in the Research Branch begins when the Assistant Deputy Minister of Research receives the Priority Memorandum. The Assistant Deputy Minister responds with his own memorandum indicating the role Research Branch can play regarding the various objectives. This process continues through the Directors General of the Regions to the Directors of research stations, where the objectives are translated into actual research projects. In this manner, the Branch is attempting to integrate its projects with departmental objectives.

8.40 **Selecting research projects.** Agriculture Canada's Research Branch has established a network of formal and informal contacts that influence both the source and selection of proposals for research. A prime example is Agriculture Canada's sponsorship of the Canadian Agriculture Services Co-ordinating Committee and the related Canadian Agricultural Research Council. Participants in these organizations represent provincial governments, other federal departments, growers, processors and academics.



Agriculture Canada has established a network of contacts that influences the source and selection of proposals for agricultural research.

8.41 Research projects are initiated at the Research Station or Institute level. The Directors have the authority to approve research projects within their Work Plan (budgets) that are consistent with the establishment's approved program structure. Within the research establishments, review procedures prior to approval usually include preliminary investigative research of up to one year, peer group review and revision, consideration by a Program Committee and the Director's approval. This process requires documentation of the proposal, but such documentation is not consistent between establishments, nor are there standard guidelines for the process.

8.42 Because of the lack of branch-wide guidelines for preparing, planning and selecting research proposals, there is no reasonable assurance that all approved research projects are relevant to Department and Branch objectives.

8.43 **The Research Branch should establish guidelines for use by the Directors and research scientists for preparing, planning and selecting research proposals.**

Guidelines for preparing, planning and selecting research projects are being developed as part of a document on management practices for

> research and development being prepared by the interdepartmental Working Group on Research and Development, sponsored by the Office of the Comptroller General. After these guidelines have been approved by the Steering Committee of Science ADMs, they will be adapted where necessary and implemented at establishments throughout the Research Branch. The guidelines will supplement the Research Branch Project System already being implemented.

8.44 **Project implementation and control.** The project implementation process in the Research Branch of Agriculture Canada begins with an approved project work plan. This plan generally contains a description of the work to be performed, the rationale for the project, estimates in terms of person-years of the technical and scientific resources required, and the costs of any special equipment required. The amount of detail in project work plans is not consistent between establishments, nor are there guidelines setting out the minimum information required.

8.45 Expenditures and commitments are controlled against the total establishment budget. Monthly expenditure and commitment reports are prepared for the Director by the establishment's Financial Officer. Using the financial coding system, establishment expenditures could be charged against a particular project. However, systems for monitoring actual project costs are not yet in place.

8.46 **Research Branch should develop and promulgate guidelines for implementing and controlling research projects.**

> Guidelines for implementing and controlling research projects are included in the recently prepared publication on the Research Branch Project System. Comprehensive instructions for preparing Project Outlines, Research Plans, and Annual Projects are provided, and the System is being implemented throughout the Branch. Each project must relate to a Branch Sub-objective, and resource accountability (financial) is exercised at the Sub-objective level by each Decision Making Head.

8.47 **Evaluation.** Progress of projects during the year is monitored informally by the Director and Section Head. Formal project progress reports are produced at mid-year and year end to coincide with the Management Accountability System requirements and schedules. Formal reviews of major activities that cover a number of related projects, such as the recent "Western Horticultural Review", are organized on a five-year cycle. Such reviews are carried out by interested research and user groups. They may lead to realignments of activity content, direction and location. Our audit indicates that, within the present system, adequate management and quality reviews are being carried out.

8.48 **Health and safety practices.** The Branch has a structure for implementing health and safety practices. There is a Department Health and Safety Manual which addresses health and safety issues in a superficial manner. The manual refers to Treasury Board standards but does not set out specific standards for research station safety. There is also a departmental Safety and Health Committee Guide. This guide details how a Joint Occupational Health and Safety Committee (JOSH) ought to function. The JOSH committees can be formed at any level by the request of either management or collective bargaining agents. The JOSH committees are responsible for conducting safety surveys and sending the results to various designated recipients. Because no formal monitoring of JOSH committees takes place, information is not available on the number of safety surveys performed by the committees or which committees are active or even exist.

8.49 We noted that monitoring of the application of the health and safety practices in research labs and stations is not formally done, nor are there established procedures for the handling, transporting, storing and disposing of toxic and dangerous substances. For example, in one location, there was a large quantity of potentially hazardous waste material awaiting disposal. This material was held pending the approval of funds in another department. If adequate storage facilities had been available, the delay would not have represented a potential hazard. There is also no current inventory of hazardous materials in the Research Branch.

8.50 **The Research Branch should establish standard procedures for monitoring all aspects of health and safety in the research establishment.**

> Joint (union-management) Occupational Safety and Health (JOSH) committees are in place at all locations to monitor and report on health and safety related matters. The variation in local conditions and programs prevents the formulation of standard procedures other than those promulgated by the Treasury Board. It is the responsibility of the manager at the local level to ensure adherence to the Treasury Board health and safety standards. However, mechanisms to monitor JOSH committee activities will be developed and implemented by Research Branch.

8.51 **Procedures should be developed for handling, transporting, storing and disposing of toxic and dangerous substances.**

> Other government agencies (Health and Welfare, Environment, Transport) are responsible for the development of procedures for handling, storing and disposing of hazardous chemicals. Generally, these procedures are followed. The situation referred to by the Auditor General resulted from a particular problem encountered in obtaining approval from Environment Canada for a suitable disposal site for waste material in the National Capital Region. The Department is pursuing measures to resolve this problem.

8.52 **Up-to-date inventories of all hazardous material should be maintained.**

> All managers will be instructed to develop and maintain up-to-date inventories of hazardous material if they have not already done so.

Agri-Food Development

8.53 The audit of the Research Branch, which is the major component of the Agri-Food Development Program, is reported in the previous section of this chapter. Other activities or areas selected for audit in the Agri-Food Development Program included the data base used in marketing and economic programs and in the commodity price support system of the Agricultural Stabilization Board, and the operation of the "Record of Performance" (ROP) program, which forms part of the Department's genetic improvement activities.

8.54 Our concern regarding the data base of the various programs reviewed was the Department's reliance on provincial studies in calculating deficiency payments of the Agriculture Stabilization Board for designated commodities. The method generally used is for the Department to obtain the most recent provincial studies, apply a combination of farm price input indices and actuals, compare the results to previous studies and industry input and, if considered necessary, conduct its own surveys. This approach suffers from several weaknesses. In the first place, provincial studies are sometimes simply indexed up-dates of previous reports and vary in quality and consistency from study to study. Secondly, farm price indices are not always appropriate for some specialty crops.

8.55 **The Department should develop a consistent, high-confidence level approach to calculating deficiency payments.**

> The Department has taken steps, including additional commodity analysis, within the Marketing and Economics Branch, to alleviate as much as possible the concerns that the Auditor General's review has highlighted. As well, it proposes to continue its efforts in upgrading existing methodology to provide a consistent, high confidence level approach, as resources permit.

8.56 **Genetic improvement - Record of Performance.** There are four Record of Performance (ROP) programs -- dairy, beef, swine and sheep. The dairy program is the oldest (1905) while sheep is the newest (1976). The programs are designed to assist the industry in improving livestock through production testing and recording the performance of specific animals and their offspring and by using these data in selective breeding programs. The estimated cost of the total program for 1982-83 is $7.7 million with $3 million to be recovered through fees charged.

8.57 The Department has procedures for measuring the effect of the program only on the animals registered. In the largest program, dairy cattle, 4512 herds were registered in the federal program in 1980-81, a slight increase over the previous year. This represents only about 13 per cent of the total dairy cattle population in Canada. Some Provinces have milk recording programs and a portion of their data is included in the federal system. The provincially supervised programs include a further nine per cent of the national dairy cattle population.

8.58 Various beef Breeders' Associations operate similar programs for particular types and breeds of livestock.

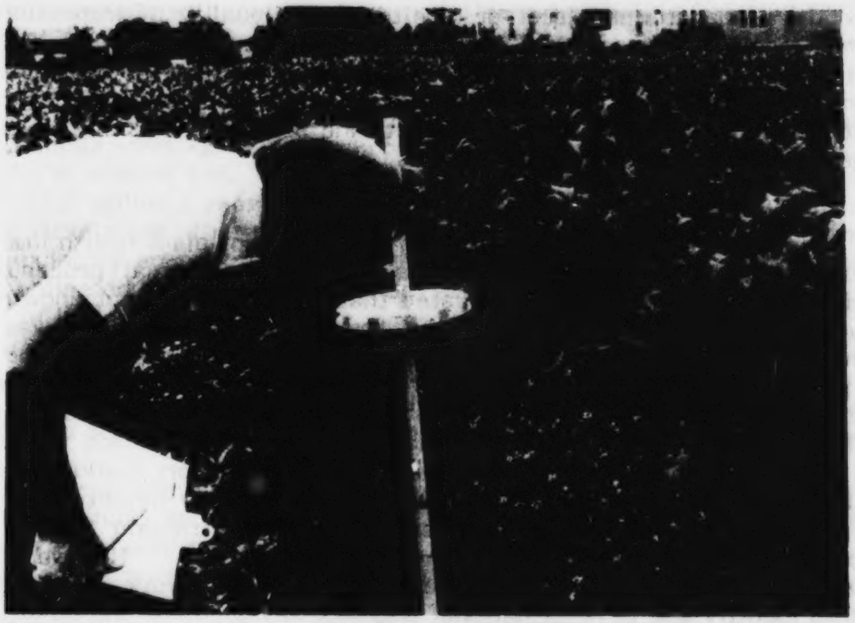
8.59 It may be appropriate to re-examine the current role of the Department in this type of program. Our audit indicates that one of the prime reasons for the federal government involvement in ROP is to provide credibility to the data being produced. In some other countries, we noted that government boards with Breeder membership attest to the results. In the United States, a similar service is provided through State programs, breeder associations and universities. It is conceivable that the Department's primary role should be to authenticate the results produced by other agencies. The outcome of the evaluation assessment of Production Development - Animals should be considered when reviewing the Department's role in the operation of ROP programs.

8.60 **The Department should review its role in the operation of ROP programs.**

> The Department is currently reviewing its role in the operation of the ROP programs through the completion of a comprehensive internal review. Additionally, an intradepartment Policy Review Committee was established comprising representatives from three branches, and a Policy Review Paper was presented and accepted by Senior Management on May 1, 1982. The Department's role in the ROP programs has and is continuing to evolve in order to respond to shifts in the livestock sector, evolving roles of provincial governments and industry groups, and, as well, the Department's own shifts in priorities and resources.

Agri-Food Regulation and Inspection

8.61 The Agri-Food Regulation program is designed and managed by the Food Production and Inspection Branch. This is one of the major branches of the Department, employing over 4,000 people and controlling a budget in excess of $185 million. Its objective, through regulatory and inspection activities, is to ensure the continued supply of safe, high quality, nutritious food for the domestic and export trade.



Inspection is one of the main functions of the Agri-Food Regulation program. The Department is working to improve the monitoring and control of inspection activities; for example, in the Fresh Fruit and Vegetable Group.

Meat inspection is major activity of the Food Production and Inspection Branch.

8.62 Since inspecting is one of the main functions of this program, we reviewed the procedures in place for monitoring the quality of inspection. We found that monitoring procedures vary from activity to activity. Where monitoring is carried out by the Department, the results show that the inspections are well done. Some work is being done to improve the monitoring and control of inspection activities. For example, a monitoring procedure for the Fresh Fruit and Vegetable Group is now being developed.

8.63 In the Plant Quarantine Division the quality of plant health inspection on imports and exports is unknown since there is no formal procedure for monitoring inspectors. Our audit indicated that, in addition to not knowing how well the inspection activity was being done, the training of inspectors was weak. No formal training program is available and, as a result, the inspector must learn on the job. This method is deficient in that pests and diseases that are not observed during the training period may not be recognized in subsequent inspections. This weakness represents a potential risk to crops in Canada through the possible importation of destructive pests and diseases. Export markets may also suffer if diseased or contaminated agricultural products are detected as having come from Canada. By contrast, there are formal training programs for inspectors in the dairy products and seed potato programs. The Department recognizes the problem and has included in its 1982-83 work plan a project designed to identify and develop national training, development and qualification standards for these inspectors.

8.64 The Department should ensure that its Plant Quarantine inspection staff is technically competent.

> The Department recognizes the problem and has included in its 1982-83 Work Plan a project designed to identify and develop national training, development and qualification standards for the inspectors of the Plant Quarantine Division. As well, a detailed management practices assessment of the Plant Health and Plant Products program will commence September 1982 and will develop recommendations which particularly address the areas of monitoring the quality of inspection and staff training needs.

8.65 **Overtime.** In 1980-81, overtime cost incurred for the meat inspection activity was $5.6 million of which $3.5 million was recovered. A major part of this overtime cost occurred because of differences in the normal working hours per day of government inspectors (7.5) and the processors (8). The Department has adjusted the shifts of the inspectors in some areas to reduce the impact of this extra cost. However, the differences between the two shift lengths still result in some overtime cost not being charged to the processor.

8.66 The Department should implement full cost recovery for hours worked over seven and one half hours per day in the meat inspection activity.

> The Department has been working toward an increased level of cost recovery and will continue to pursue this policy within the framework of the government's policies to reduce inflation.

8.67 **Unclaimed racing winnings.** The Race Track Division has calculated the unclaimed winnings at one major race track to be three quarters of one per cent of the amount bet. On a national basis, this would indicate that approximately $1.2 million a year is retained by track operators as a result of uncashed winning tickets. In other countries, these funds are claimed by the government or by a regulatory agency. The Department is developing a proposal to have this money collected by the government and used for the benefit of the racing industry as part of its long-range work plan.

8.68 **After a prescribed period of time, unclaimed winnings should be deposited in a special account in the Consolidated Revenue Fund.**

> The Department agrees that a prescribed period of time be established for cashing pari-mutuel tickets. Moneys accruing from uncashed tickets should be deposited in a special account within the Consolidated Revenue Fund. Legislation is required for any such change.

Support Services

8.69 **Financial management and control.** The financial management and control processes in the Department of Agriculture were generally adequate. The Department has taken the initiative to identify and resolve deficiencies in financial management. As a result of the Improvement in Management Practices and Control program, (IMPAC), and other government and departmental initiatives, positive action has been taken in several areas. However, we noted some areas where further improvements could still be made.

8.70 An IMPAC project has reviewed information needs and the Department is in the process of implementing a new financial reporting package. Our review of the project methodology and the proposed new reports indicated that these new reports will still not fully satisfy managers' needs for information until they are expanded to include appropriate operational performance information. Currently there is inadequate linkage of financial and operational performance data. The present reports do not indicate how well, or to what extent, program objectives are being met. The IMPAC plan calls for the Department to develop a new operational performance information system. This information will be integrated with the financial reports.

8.71 **Management reports should link financial and operational performance data, where appropriate.**

> The Department fully agrees with this recommendation. Various studies have indicated that because of the diverse operations carried out in Agriculture Canada, individual operational control systems must be developed to meet these particular requirements. On the other hand, most operations require the same type of financial information so that it is possible to introduce a standard financial information system within most sectors of the Department. Accordingly, where appropriate, it is planned to have the financial information system transfer whatever financial information is required to the various operational control systems so that both financial and operational data will be included on the same reports.

8.72 The Prairie Farm Assistance Act was created to provide financial assistance to farmers, who suffer crop failure in the spring wheat area, based on average yield in that area. Crops that were insured by farmers under a crop insurance scheme did not qualify for awards under this Act. Until 1972, a levy of one per cent was deducted from all licensed producers of grain and accumulated in the Prairie Farm Emergency Fund. The disposition of the balance remaining in the Fund, which now stands at more than $9 million, has not been resolved. One alternative would be to transfer the outstanding amount to the Consolidated Revenue Fund because awards in prior years in excess of levies had been funded through appropriations from the Consolidated Revenue Fund.

8.73 **The balance in the Prairie Farm Emergency Fund should be disposed of in an appropriate fashion as expeditiously as possible.**

> The Department agrees with the recommendation and is actively seeking the necessary authority to permit the disposal of the Fund.

8.74 **Materiel and facilities management.** The Department has a considerable investment in equipment and buildings at various research stations and experimental farms. The Research Branch operates Crown-owned research facilities and is in the process of constructing additional research facilities.

8.75 The Department justifies maintaining its existing stations because of the need to satisfy regional requirements and to respond quickly to problems that are regional in nature. We found no evidence that anyone had systematically identified or analysed comprehensive long-term facilities needs, related these needs to program objectives, or monitored how effectively current needs were being met. This failure to identify and analyse the Department's long-term needs could result in facilities being acquired that did not provide the most cost-effective method of meeting the Department's long-term objectives.

8.76 **The need for facilities should be based on long-range program plans, and be related to the Department's stated objectives.**

> Initiatives are being taken to improve the facilities planning and asset management function in the Department. Policies and procedures will be developed to ensure that program plans and proposed capital facilities requirements are integrated in the planning process.

8.77 Provinces lease space in the Research Branch's facilities. The cost-sharing lease agreements do not provide for a fair allocation of costs. For example, all agreements stipulate depreciation based on a 49-year useful life whereas, based on industrial experience, the useful life of a building varies depending on the type of structure. We noted further that common costs to be recovered were not all-inclusive, particularly with respect to maintenance costs such as snow plowing and grounds maintenance. In some instances, the maintenance costs of the leased space are not being recovered because the accounting systems do not provide for separation of federal and provincial costs.

8.78 There are approximately 17 provincial leases for space in Agriculture Canada's research facilities which produce $400,000 in revenue each year. The agreement between the Lethbridge Research Station and the Government of Alberta, signed in 1974, calls for an annual review and update of lease rates. The rate has not been reviewed since inception nor has the annual fee been increased to cover inflation.

8.79 **The Department should establish procedures to ensure that all appropriate costs of leased space in its research facilities are recovered from the lessees.**

> The Department will review and make appropriate amendments to its existing policies and procedures. Measures will be taken for the regular review of rates to ensure the appropriate recovery of costs for leased space.

8.80 **Human resource management.** In 1982-83, the Department is budgeting for approximately 10,000 person-years and payroll costs in excess of $329 million.

8.81 In general, there has been an almost total lack of human resource planning across the Department. However, current skill shortages and staffing delays are now recognized as a significant threat to accomplishing specific program goals. As a result, initiatives are being taken to establish human resource planning as an integral part of the corporate planning process.

8.82 Annual work plans and long-term plans are based on anticipated approved person-years. They do not identify human resource planning implications; that is, skills required and their likely availability. In those areas where chronic shortages are being experienced, managers acknowledge that their plans tend to overstate performance expectations because they are based on the invalid assumption that all the approved person-years will be utilized during the period covered by the plan.

8.83 There are significant delays in staffing many scientific and professional positions in key branches of the Department. These include research scientists, veterinarians, agricultural economists and agronomists. The delays appear to be attributable to a number of factors: fewer qualified graduates entering the market; increased competition from other sectors; a lack of understanding of the staffing process by managers; inadequate human resource planning; higher rates of retirement due to an aging population; and the attractions of early retirement. A major contributing factor has been the inadequate definition of responsibilities for human resource planning and staffing within and between the Personnel Administration Branch and the various line branches.

8.84 Personnel projections indicate a requirement throughout Canada for over 1,000 new research positions by the year 1986 to give effect to Canada's proposed Agrifood strategy, with the Department being by far the major employer of this number. Although approximately 300 of the existing complement of 900 research scientists in the Department may or must retire within the next four years, there has been little work done to assess the impact of potential skill shortages on current and future research initiatives.

8.85 Current and anticipated shortages of research scientists at the doctorate level, agricultural economists, women and French-speaking Canadians within the professional and scientific categories are resulting in the development of specific activities to influence entry. For example, in the Research Branch there is a major restructuring of research positions taking place. The Branch is moving to reclassify positions downwards, thus permitting the recruitment of scientists at the Bachelor and Master's level and subsequently granting leave to the incumbents to complete their studies. Sixty person-years from within the Research Branch have been allocated over the next three years for such development purposes. It is not clear how this strategy will affect current and planned research. There is no evidence that alternative make-or-buy strategies, such as contracting out more research, were considered in terms of their relative cost effectiveness, nor is there evidence that the Branch has evaluated the impact of under-filling on the research program and on the working relationships with other key research scientist and technician positions.

8.86 Although it is acknowledged that there has been very little human resource planning in the past, a number of steps have been taken recently, including:

- Short and long-term staffing requirements are beginning to be identified in the Personnel Management Planning process, and the timing of this process has been phased to ensure that it is integrated with operational planning.

- All branch work plans and long-term plans are now being developed with consideration of their human resource implications. Meetings between Personnel Administration Branch representatives and line managers take place at the regional and headquarters levels. The branch plans are reviewed by the Director General, Personnel before they are submitted to the Deputy Minister and the Senior Management Committee for approval.

- The Research Branch has recently initiated a Recruitment and Training Program for research scientists. It has also established a Planning and Implementation Committee with both departmental and university representation for the purpose of identifying and meeting future requirements for research scientists.

- Forecasts of recruitment needs are developed by discipline and are made available to the Deans of agricultural institutions.

8.87 **The Department should develop and communicate departmental policy and procedures on human resource planning.**

The Department agrees with this recommendation and plans to develop and issue a specific policy on human resource planning by December 31, 1982. Related policies and procedures already in place include the following:

(a) Guidelines for Human Resources/Personnel Management Planning linked to Operational Planning. These have been developed and revised during the past two years.

(b) Performance Appraisal Policy and Procedures.

(c) Guidelines for linking Performance Appraisal to Operational Plans, issued in 1982.

(d) Training and Development Policies and Procedures.

8.88 **Human resource planning should be integrated with operational planning and with other personnel systems.**

The Department agrees with this recommendation. Over the past two years, human resource planning has been developed and integrated with the Departmental Operational Planning System, and in turn, the human resource plans feed into the Personnel Systems. This year, we will continue to refine and improve on these processes.

8.89 **Options to meet anticipated skill shortages should be evaluated to ensure that the most cost effective are selected.**

> The Department agrees with this recommendation. In any future decisions of this nature, a number of alternatives will be subjected to a decision analysis process, and the option which best meets the effectiveness and cost criteria will be selected. Within the next year, skill shortage problems will be ranked in priority and corrective strategies will be developed.

8.90 Training and development are becoming increasingly critical issues for the Department. Staffing requirements, skill shortages and the restructuring of jobs are requiring that more emphasis be placed on on-the-job training and development activities. Notwithstanding the existence of an elaborate needs identification and approval process, training requirements and resources have not been adequately defined and planned for.

8.91 Although training and development plans have not specifically been tied to development of work plans and long-range plans in the past, this is now beginning to happen indirectly as specific branches undertake training initiatives aimed at addressing identified skill shortages. Training requests and plans, however, are seldom identified in terms of specific organizational project or job performance requirements.

8.92 The Department lacks an effective policy and planning framework to facilitate and ensure the establishment of training and development objectives, priorities and plans. Responsibilities for training and development are fragmented among the Personnel Administration Branch and the line branches. They are not well defined or understood.

8.93 We found that there were major variations between the training plans developed and the training actually accomplished. There was no evidence of monitoring training to ensure that training dollars were being spent in an economical and efficient manner. Further, the evaluation of training and development was inadequate to ensure that training and development activities are carried out in the most effective way to meet the Department's requirements.

8.94 **The Department should clearly define and communicate the roles and responsibilities of both the Personnel Administration Branch and the line branches for training and development.**

> The Department agrees with this recommendation. The Personnel Administration Branch will work with the Food Production and Inspection Branch to develop a model which demonstrates the delineation of roles and responsibilities vis-à-vis training and development. We believe that such a model could be used for other banches in the Department. Apart from being the largest Branch by far in the Department, FP&I has the highest volume of professional and technical training, plus the most formalized in-branch training organization.

The model will be validated with all other branches and will be communicated to all Decision Making Heads by December 31, 1982.

8.95 Training plans should be based on the training needs which are derived from work plans and long-term plans as well as identified performance requirements.

The Department agrees with this recommendation. For the first time, the plans developed in the 1982-83 planning cycle were reviewed by the Personnel Administration Branch to identify human resource implications. The planning process also now provides for consultation between departmental managers and personnel advisers during the development of work plans and long-term plans.

8.96 Training activities should be monitored and evaluated to ensure that they are satisfying departmental requirements and that the Department is getting value for the money spent on training.

The Department agrees with this recommendation. The Department has implemented, effective April 1, 1982, the Training and Development Information System that was developed by Treasury Board and the Department of Supply and Services. For all training activities with a cost of more than $99, the Training Application and Authority Form must be completed and reported to the Treasury Board. The type of training is recorded under one of six headings:

1. Professional, Technical, Vocational
2. Retraining
3. Occupation Health and Safety
4. Orientation
5. Development
6. Employee Assistance

The reports to Treasury Board can be measured against the identified training needs to ensure that courses taken are satisfying departmental requirements. In terms of the Department getting value for money spent on training, efforts are under way to develop cost/benefit methodology. Particularly with the Middle Management Orientation Program and the corresponding program for supervisors, pre and post-course measurement will be undertaken.

8.97 The Department lacks an effective human resource information system. The lack of adequate information is a major contributing factor to the deficiencies in human resource planning and staff training.

8.98 Responsibility for the departmental Personnel Management Information System (PMIS) is being tranferred from the Field Services Division of the

Personnel Administration Branch to an administrative unit directly under the jurisdiction of the Director General of the Personnel Administration Branch. The rationale behind this move is to give the development and operation of the information system a higher priority and level of commitment. The Department expects that the major user of PMIS will be the Human Resource Directorate which is about to be established in the Personnel Administration Branch. While there are serious shortcomings with respect to the current PMIS, these are recognized within the Department and plans are being implemented in accordance with generally approved practices governing the development of such systems.

Information for Parliament

8.99 The Treasury Board has directed departments and agencies to prepare their Estimates in a new form. The new form is directed toward improving the government's accountability to Parliament by providing more and better information on programs, thereby permitting Members of Parliament to carry out more effectively their review of expenditures.

8.100 In accordance with the Treasury Board directive, the Department of Agriculture is preparing a Departmental Expenditure Plan, Part III of the Revised Estimates for 1983-84. The quality of the Departmental Expenditure Plan will depend on changes to systems that are needed for comparing planned and actual results, related expenditures, and measuring the extent to which departmental objectives have been met. Previous sections of this chapter have noted that departmental objectives for program components are not stated in a manner that permits measurement of achievement, that costing information is not available showing expenditure by research project, that financial and operational performance data are not linked and no evaluation studies have been completed. Until revisions are made in these areas, meaningful information will not be available for presentation in the revised Estimates.

8.101 The requirement to report in the revised Estimates the results of expenditures and information to measure the extent to which objectives are being met is mandatory two years after the initial Departmental Expenditure Plan is presented to Parliament. As the Department of Agriculture further develops its evaluation studies and performance indicators, additional information can be disclosed in the Program Expenditure Plan to supplement the data currently used.

8.102 Highlighting this type of information in the Estimates would enable members of Parliament to better assess the Department's requests for resources. The Department has already revised its program structure to better reflect operational relationships. Information on how well objectives are met, such as eradication of certain diseases, increase in productivity for farmers, and how new and better technology has improved the agricultural sector, would also be of interest and would help establish whether the Department is getting value for money. The use of efficiency and effectiveness indicators of this type is required to account fully for the use of resources applied to such objectives.

8.103 A substantial part of the Department's resources are needed to deal with repetitive procedures such as inspections. The requirement for these resources, as well as the support (equipment, technical) needed by them, should be presented in terms of inspections by type, the average cost per inspection, frequency of inspection and the trends noted during the year. The quality and level of service should be defined to justify resources requested. Some of this information is already available; however, improvements can still be made in the area of productivity measurement and reporting.

8.104 Some recent changes that reduce the information provided to Parliament should be re-assessed; for example, before 1981-82, the Research Branch operated under a separate Parliamentary Vote. Agriculture Canada's R&D programs are now mainly shown as part of the Agri-Food Development Program in the Estimates of the Government of Canada. The restructuring of the Vote has affected both disclosure to Parliament of spending on agricultural research and departmental accountability to Parliament. This situation will continue to prevail until the Departmental Expenditure Plan, Part III of the Revised Estimates is implemented.

DEPARTMENT OF ENERGY, MINES AND RESOURCES

DEPARTMENT OF ENERGY, MINES AND RESOURCES -- MINERALS AND EARTH SCIENCES PROGRAM

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9

DEPARTMENT OF ENERGY, MINES AND RESOURCES — MINERALS AND EARTH SCIENCES PROGRAM

SYNOPSIS

9.1 The overall objective of the Minerals and Earth Sciences Program (MESP), as set out in the Estimates, is to ensure "the availability of mineral policies and strategies and timely earth science information, technology and expertise related to the landmass of Canada and its mineral and energy resources." MESP is composed of three major sectors: Mineral Policy, Earth Sciences, and Research and Technology. The three sectors report to the Associate Deputy Minister. Exhibit 9.1 sets out the organization.

9.2 The Mineral Policy Sector establishes policies and strategies to ensure adequate supplies of minerals and metals for Canada and undertakes assessments of Canadian and world supply and demand in minerals.

9.3 The Earth Sciences Sector, which is composed of the Geological Survey, Earth Physics, and Surveys and Mapping Branches, is responsible for ensuring the availability of geological knowledge about the mineral and energy resources of Canada, providing knowledge of the dynamic processes and hazards of the Canadian landmass (for example, earthquakes), publishing topographical maps, and conducting surveys of federal lands.

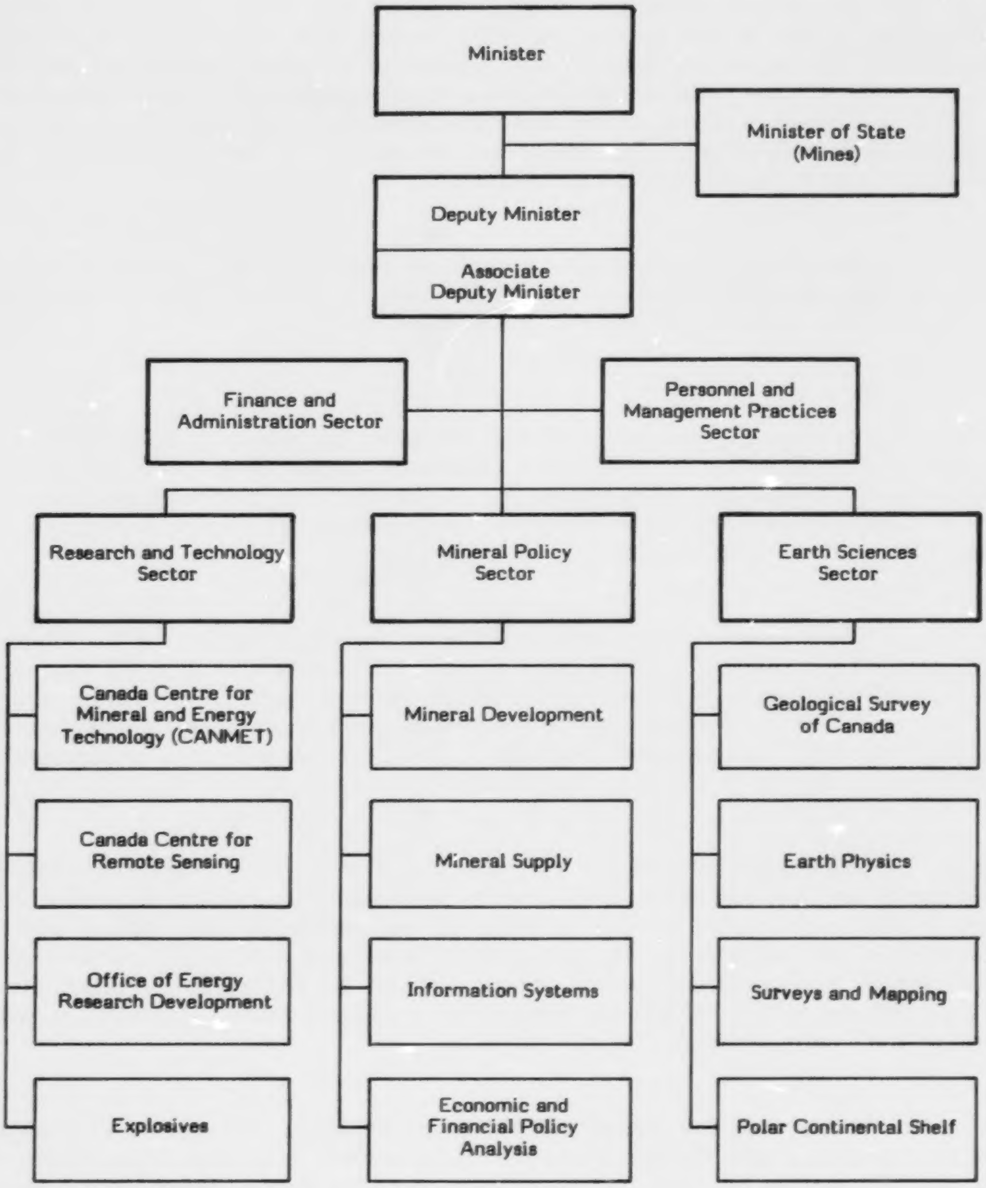
9.4 The Research and Technology Sector includes the Centre for Mineral and Energy Technology (CANMET), the Centre for Remote Sensing (CCRS), and the Explosives Branch. CANMET co-ordinates federal research efforts in mining and energy. CCRS develops and demonstrates systems to disseminate remote sensing data from aircraft and satellites. The Explosives Branch regulates the manufacture, storage and sale of explosives.

9.5 The budget for 1981-82 was just over $165 million. Personnel costs in the form of salaries and wages and benefits represent 58 per cent of total costs. Over a four-year period ending in 1981-82, the operating and capital budget increased by an average of 8.1 per cent a year, and authorized person-years decreased by 3 per cent during this period. Exhibit 9.2 illustrates the distribution of expenditures within MESP, and Exhibit 9.3 compares MESP expenditures with those of the Energy Program.

9.6 In the past few years, MESP has experienced unprecedented changes that are having a major impact on its historic roles and activities. The growth of the energy program has required new types of earth science information; technological advancements in the areas of satellites and computers have had a

Exhibit 9.1

DEPARTMENT OF ENERGY, MINES AND RESOURCES
MINERALS AND EARTH SCIENCES PROGRAM
SUMMARY ORGANIZATION CHART - 31 MARCH 1982


Minister
Minister of State (Mines)
Deputy Minister
Associate Deputy Minister
Finance and Administration Sector
Personnel and Management Practices Sector
Research and Technology Sector
Mineral Policy Sector
Earth Sciences Sector
Canada Centre for Mineral and Energy Technology (CANMET)
Canada Centre for Remote Sensing
Office of Energy Research Development
Explosives
Mineral Development
Mineral Supply
Information Systems
Economic and Financial Policy Analysis
Geological Survey of Canada
Earth Physics
Surveys and Mapping
Polar Continental Shelf

significant impact on CCRS and on Surveys and Mapping Branch. The federal government's priority on mineral policy has significantly changed the role of the Mineral Policy Sector and some of the priorities of the Earth Sciences and Research and Technology Sectors.

9.7 The Mineral Policy Sector is currently expanding its role in areas such as international minerals and regional development. This could involve considerable increases in budget and changes in personnel. To ensure value for money major changes in the responsibilities of this Sector must be properly planned.

9.8 In the Earth Sciences Sector, the Geological Survey has had to respond to the expanded information needs of the Energy Branch. This has shifted some of the emphasis of Geological Survey of Canada from developing basic geoscientific data to providing policy and regulatory information for resource assessments and special projects. The Branch now has to balance these new demands with its traditional activities and with limited increases in resources. In the Surveys and Mapping Branch, the compilation of maps is being revolutionized by applying digital methods and computers. This could immensely improve the productivity of the Branch's operations and change other ways in which the Branch fulfils its role in the future.

9.9 The expenditures of MESP have an impact that reaches far beyond its $165 million budget. The earth science information and the technology developed by the Program are vital to the identification, development and management of mineral and energy resources. They provide the basis for assessing petroleum resources, locating new sources of ore and improving mineral processing. Similarly, mineral policy and information can have a continuing influence on the viability of the mining industry. The minerals and metals industry is responsible for 20 per cent of total Canadian exports, 4.6 per cent of GNP and 130,000 jobs and is the major employer in 175 Canadian communities.

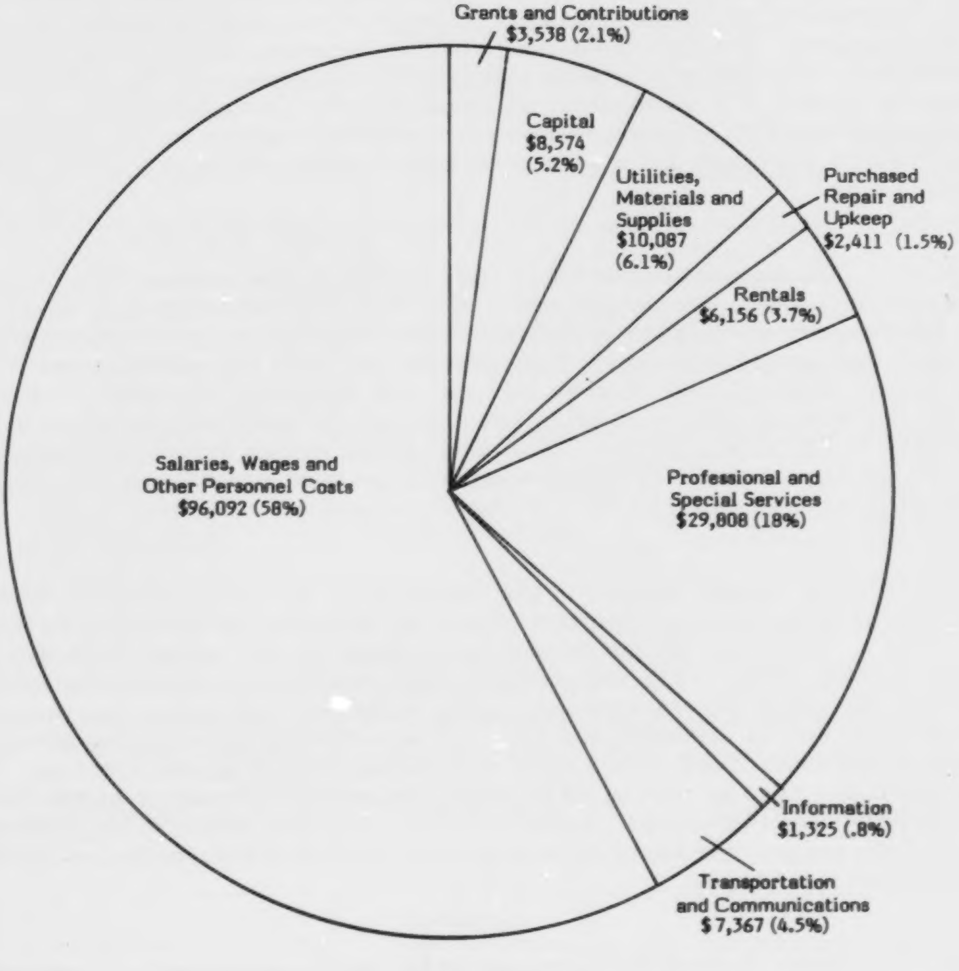
9.10 The current changes in the Department's role with respect to mineral and energy policy have an important impact on the roles, functions and priorities in MESP. The thrust of the federal government in the energy field and the mineral policy area and the recognition of the importance of geoscience information in the recent federal economic policy statement have placed new pressures on MESP to link its scientific and technical activities to achieving the economic goals of the government, particularly with respect to energy and minerals. This has been reinforced by placing MESP within the economic envelope of the Policy and Expenditure Management System. MESP must also adjust to the increased role of the provinces in resource development, remote sensing, geological surveys and surveys and mapping.

9.11 These changes have implications for major management processes such as planning, human resource management and financial management. Our review of MESP indicates that this organization has been able to respond well to some of

Exhibit 9.2

DEPARTMENT OF ENERGY, MINES AND RESOURCES
MINERALS AND EARTH SCIENCES PROGRAM
DISTRIBUTION OF EXPENDITURES FOR 1981-82

(in thousands of dollars)



these changes by improving the management practices that have existed in the past. In areas where significant re-assessment of the approach or role of a Branch has been required or where central management policies have been needed to guide the activities of a number of branches, MESP has had difficulties.

9.12 Many of the Program's current management practices are suited to the roles and activities MESP has traditionally performed; however, the recent changes require improved planning, including an enhanced capacity to assess the financial and economic effects of new initiatives, and new management policies and capabilities.

9.13 We found that MESP did not undertake sufficient studies or analyses of the economic implications of many of its scientific and technical information activities. In addition, the Mineral Policy Sector has not yet developed a full capability to analyse the international supply and demand of minerals or the effects of economic policies on the Canadian mining industry.

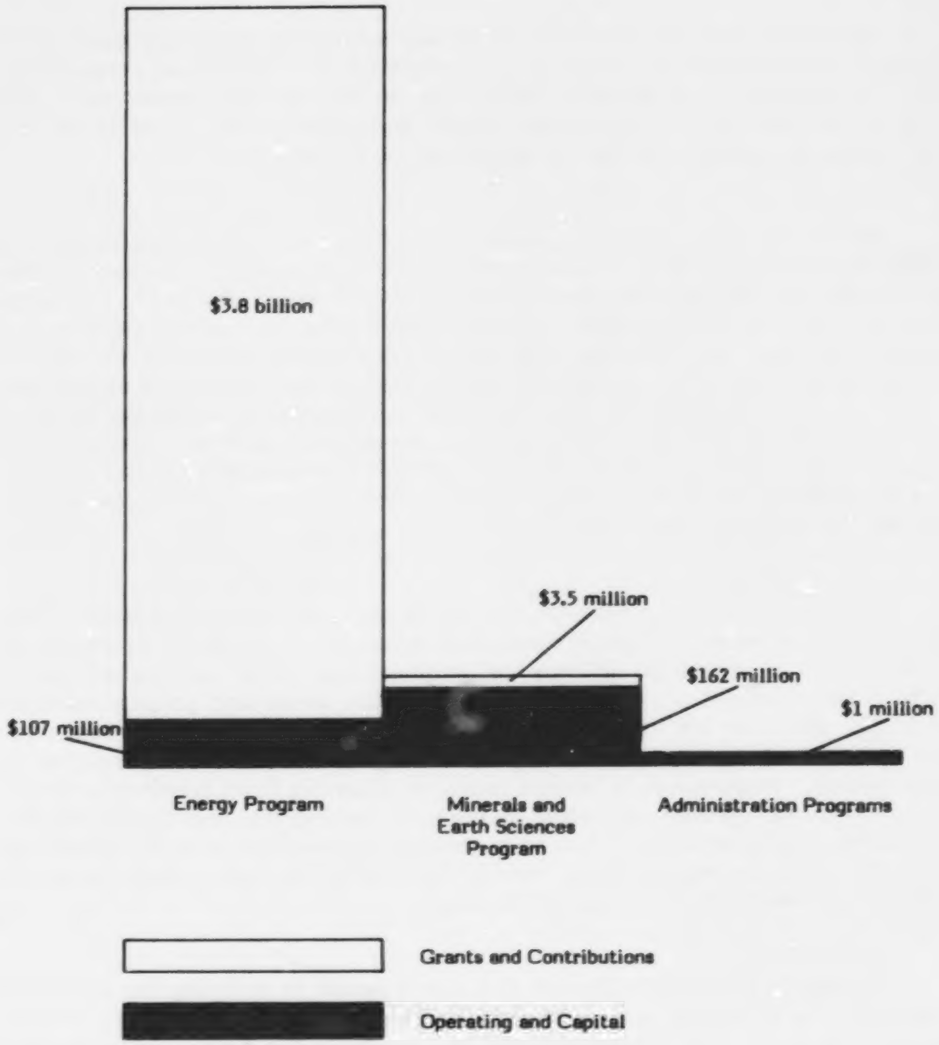
9.14 MESP has been making considerable efforts to improve its capability to analyse fully the trends and influences that affect its mandate. However, the Program is hard pressed to make the necessary improvements while at the same time accomplishing its current work. Further improvements in strategic planning are necessary so that the Program can assess its current activities in light of changing circumstances and develop new approaches to accomplish its objectives. This is particularly important as the Program considers new functions in areas such as mineral policy and off-shore resource assessment, and new technologies for computer mapping and remote sensing. MESP has recognized that it must develop and refine its skills in strategic planning and link the plans to operational activities and human resource requirements.

9.15 Human resources in MESP make up 58 per cent of expenditures. Over two-thirds of the personnel in the Program are involved in scientific or technical occupations such as research science or engineering. The success of MESP depends to a large extent on availability of specialist skills and proper management of staff. Because the Program does not plan for its human resources, strategic and operational decisions are being made without adequate consideration of this major factor. Weaknesses in human resource planning have resulted in shortages in occupational groups including petroleum geologists and geophysicists. Without further improvements in human resource management, the Program will have difficulty in acquiring the personnel to carry out its present and projected functions and in making the best use of its people.

9.16 Surveys and Mapping Branch is a world leader in applying the advanced technologies of the computer and satellite age to increase the efficiency of map preparation. However, the Branch has had to operate in the horse and buggy age when it comes to printing maps. Printing operations are inefficient and costly, partly because of obsolete presses. Although the Branch has presented capital

Exhibit 9.3

DEPARTMENT OF ENERGY, MINES AND RESOURCES
DISTRIBUTION OF EXPENDITURES AMONG DEPARTMENTAL PROGRAMS
FOR YEAR ENDED 31 MARCH 1982



submissions for new printing presses, the necessary decisions have been delayed for several years because of a dispute between the Department of Supply and Services and the Surveys and Mapping Branch concerning their respective authorities to print maps. This issue needs to be resolved quickly to avoid continued inefficiencies in printing operations.

9.17 The recent changes affecting the Program have increased the requirements for central plans and guidelines in electronic data processing and security. Because the activities of MESP include developing, storing and transmitting scientific and technical information, the use of computer technology has considerable potential to help increase productivity. Advancements in the area of mini and micro computers have opened up a whole new range of possibilities for accomplishing the work of the Program. MESP does not have adequate planning mechanisms in place to capitalize on these technological advancements and to coordinate the acquisition and use of computers throughout the Program. Management needs to establish an EDP plan that would articulate the role that computers will play in producing, disseminating and storing scientific and administrative information for each of the branches and sectors as well as for the program as a whole.

9.18 Since more and more information is being stored on computers, there is also a need to develop security procedures to ensure the protection of critical or valuable data and to undertake risk assessments which would evaluate the costs of replacing information in relation to the cost of protecting it.

9.19 As a result of the Comptroller General's IMPAC survey, the Department initiated a Management and Control program (MAC) to improve management and accountability. After some initial improvements as a result of this program, MAC has become increasingly irrelevant to the problems and management requirements now facing MESP. For example, improvements in strategic planning, human resources management, and central policies in EDP are not formal parts of the MAC plan at this time. In addition, a management accounting and reporting system was developed under MAC at a cost of over $225,000. This system is still in the pilot project stage, and it is not clear that it can or should be implemented.

9.20 MESP is faced with many problems in managing change. The Program needs to develop new capabilities in strategic planning, human resources management and development of central policies. To manage this change process successfully, MESP needs to re-assess its current initiatives and augment its present capabilities in critical management areas.

Audit Scope

9.21 The comprehensive audit of the Department of Energy, Mines and Resources is being conducted in two phases -- the Minerals and Earth Sciences Program and the Energy Program.

9.22 The comprehensive audit of the Minerals and Earth Sciences Program included all the major branches in the Program. It also included those research functions of the Program that were covered in our audit of Research and Development, reported in Chapter 2 of the 1981 annual Report.

9.23 Our audit concentrated on the major management processes that have a significant impact on the operations of each Branch and on the Program as a whole. These are strategic and operational planning, financial management and human resource planning. In addition, we addressed other management areas, including evaluation and EDP. Because of the importance of technology transfer and the transfer of technical and scientific information in the Department, we also examined these activities.

9.24 At the time of the audit, there was a considerable amount of review activity in the Department. EMR was conducting an A-base review with Treasury Board of all its branches; it had just completed an internal audit of the Geological Survey; and several evaluations had been completed by the Program Evaluation Branch. We built on this work where appropriate.

Observations and Recommendations

Management Functions and Processes

Planning

9.25 Planning provides a framework for reviewing existing functions and defining new roles and activities that will be required to meet changing requirements. We audited both strategic and operational planning in MESP.

9.26 In the audit of strategic planning, we examined whether the program assessed the demands from its various clients or users, analysed and forecast key trends that affect the program, such as shifting international market demands, reviewed alternative approaches for achieving the objectives of the Program, and assessed the financial and economic impacts of program alternatives. In addition, we examined the links between strategic planning, operational planning and human resources management.

9.27 MESP's primary strategic planning activity, until the end of 1981, was developing strategic objectives and preparing a strategic overview. These efforts helped to clarify objectives and provide a better accountability framework for the Program. Within the branches, the major focus of planning was on specific projects or operations. Although this planning on a project-by-project or operations basis was generally adequate for the circumstances, it has not proved to be sufficient to deal with the major changes now affecting the Program.

9.28 Some examples of the weaknesses in strategic planning that emerged as a result of this situation are as follows:

- The Mineral Policy Sector did not analyse fully the impact of international market trends on the economic viability of the mining industry.
- Geological Survey of Canada did not formally analyse the fundamental changes that were affecting its organization as a result of increasing demands for information from the Energy Branch and other departments.
- Surveys and Mapping Branch did not fully assess the impact of digital information and computer mapping on the roles and operations of the Branch.

9.29 As a result of these shortcomings, management has recently taken a number of positive steps to improve strategic planning. The Mineral Policy Sector is now redefining its role and functions in the context of its changing mandate and it has made some efforts to improve its capacity to undertake economic analysis. Both the Earth Sciences and Research and Technology Sectors are also reviewing their activities as part of the Mineral Policy review. In the Earth Sciences Sector, a series of futures conferences have been conducted to discuss some of the long-range issues facing the organization. A major problem facing the Program at this time is that many branches do not have adequate capabilities to re-assess their existing activities in light of new priorities. Major changes in roles or functions require a comprehensive re-assessment of human resource requirements, operational plans and projects, as well as a re-assessment of the impact of new functions on established and potential clients. In the past few months, MESP has taken some steps to overcome these weaknesses in strategic planning by developing improved planning capacities at the sector level.

9.30 In implementing improvements to strategic planning within MESP, the Sectors should establish strategic plans in co-operation with the branches. The plans should outline how current and projected activities will be adjusted in light of changes affecting the Program.

> The Department has recognized the need for a Corporate Planning Group, to deal specifically with department-wide and program-wide issues. Thus, the Department has recently restructured the former Co-ordination and Priorities Branch to incorporate Strategic Planning, Central Agency Liaison, Evaluation Branch, and the Office of the

PEMS Co-ordinator. This group co-ordinates the revision of Strategic Objectives and the production of the Strategic Overview on an annual basis. These documents aggregate the strategic planning carried out by Sectors in co-operation with Branches.

9.31 We audited the Minerals Policy Sector and the Earth Physics, Explosives, and Surveys and Mapping Branches with respect to operational planning. In MESP, operational plans do not include human resource considerations in terms of skills needed or availability. For example, the Minerals Sector submitted operational plans based on the assumption that all positions were staffed when, in fact, during the previous year some divisions were 50 per cent understaffed. In all projects we reviewed, delays and terminations were related to human resource availability.

9.32 **MESP should incorporate human resource considerations, such as skills, and availability into operational plans.**

> The Auditor General's concerns over the integration of Operational Activities, Strategic Planning and Human Resource requirements will be addressed by the group described in the previous response.
>
> Insofar as possible, managers take human resource considerations into account in the preparation of operational plans. However, as a result of unusually high demand for certain scientific specialists, e.g., those related to hydrocarbon exploration and development, shortages have occurred. The salary differential between the private and public sectors has made the recruitment of new professional staff especially difficult. The situation is exacerbated by the long university training period required of such specialists.

Human Resource Management

9.33 MESP is composed of a group of highly specialized scientific and technical employees. The salaries and wages and other personnel costs for the 2,922 employees of the Program make up 58 per cent of total MESP expenditures.

9.34 The success of MESP is dependent on the quality of its human resources and its ability to attract and retain properly qualified scientific and technical staff. Because 69 per cent of the total staff is involved in scientific and technical occupations, it is of critical importance that the Program give proper recognition to the special needs and characteristics of these groups.

9.35 Human resource management in MESP is primarily the responsibility of Program management. It is supported by the Personnel Branch which is composed of a headquarters personnel unit and four branch units. The Personnel

Branch reports to the Assistant Deputy Minister of Personnel and Management Practices.

9.36 Our audit of human resource management covered six branches and the Personnel function. Our work concentrated on human resource planning, training, and human resource information systems.

9.37 The Department has not stressed the importance of the human resource component of MESP, and, as a result, Personnel has not been active in analysing the present and future requirements of MESP.

9.38 MESP is not doing human resource planning in any formal or systematic manner. There are no plans to deal with long-range human resource requirements, to accommodate changes in skills resulting from technological or policy changes, or to develop scientific staff to assume management positions. However, some initiatives have been taken to deal with shortages in the petroleum geologists' group, to increase representation of French-speaking Canadians and to achieve equal opportunity objectives.

9.39 At the time of our audit, the information provided in the strategic and operational plans was not specific enough in terms of skills or required specialities to determine human resource requirements.

9.40 The Personnel Branch has established a small human resource planning capability, but it has spent most of its time identifying issues for the purposes of preparing the personnel management plan as requested by Treasury Board. Because there has been little, if any, support by MESP management for human resource planning, the major activities of Personnel Branch have been to provide services for staffing, classification, and pay and benefits.

9.41 As a result, several problems are being experienced. For example:

- Earth Sciences Sector is having difficulty recruiting and retaining scientists in areas such as petroleum geology and geophysics. Planned initiatives in areas such as off-shore resource assessments or sea-bed mining will require specialized skills, which are currently in short supply.
- Surveys and Mapping Branch does not have a sufficient influx of new personnel and new skills to take full advantage of the advances in computer mapping.

In many of these areas, the expertise is not easily available. It often takes six to eight years of university training to develop highly specialized research personnel. Without proper human resource planning, which would assess the present human resource capabilities in relation to the long-term needs of the Program, and then identify the gaps that will result from turnover, retirement or insufficient skills, MESP will continue to have major problems in this area.

9.42 The Management Practices Sector has recently recognized the problems in human resource planning and has engaged consultants to analyse the supply of and demand for scientific and technical personnel. The preliminary results of analysis indicates that shortages can be expected over the next six years in specialty areas such as geology and geophysics. Many of the areas where shortages are expected are important in terms of achieving the planned initiatives of the Program. For example, marine geologists will be essential to off-shore resource assessment activities; however, at present, no Canadian graduates are expected in this area over the next six years.

9.43 MESP should develop human resource plans that are closely linked to the strategic and operational plans of the Program.

9.44 MESP should establish a centre of expertise for human resource planning to assess long-term human resource requirements and availability, develop action plans for dealing with identified shortages and surpluses, and make the necessary proposals to management as well as to Treasury Board and the Public Service Commission.

> The Department agrees. Departmental Headquarters has been taking steps to strengthen the existing quality of and leadership in, human resource planning. A concerted effort has been made to improve the quality and practicality of the yearly Personnel Management Planning (PMP) process for the Department. Efforts are being made to closely integrate this with the Strategic Overview and Operational Plans of the MESP. Potential linking activities are being reviewed to make progressively stronger human resource planning matching with future Strategic Overview exercises.

9.45 **Training.** Training has received a low priority in MESP over the past several years. The original Training Branch, which was once composed of six persons, had a complement of two at the time of our audit. To maintain some capability, the training for the whole Department was recently consolidated under the Director of Personnel (Energy).

9.46 At the time of our audit, training needs were identified in an ad hoc way and were not related to operational requirements of the organization. As a consequence, there was no process in place to tie training to work requirements, or to help ensure that training provided is, in fact, appropriate. Although the Department is taking some positive steps in this area by developing a training policy, its training programs have yet to meet the organizations' needs for new skills such as those required as a result of changing management requirements and technological developments.

9.47 MESP should ensure that training needs are identified in relation to the human resource requirements identified by strategic and operational plans and that its training programs are evaluated to determine the extent to which they meet Program needs.

> The Department agrees. To a certain degree this recommendation has been met on a piecemeal basis in the past. However, a Headquarters focal point for meeting these requirements is being planned and will centre in the Personnel and Management Practices Sector. This proposed departmental focal point would be the centre of expertise needed to integrate all activities aimed at identifying and meeting short and long-term needs for professional and other human resource requirements.
>
> Beginning with the personnel planning now in progress for fiscal year 1983-84, the training needs of all departmental employees will be determined as an integral part of the strategic and operational plans and the annual human resources planning activity rather than separate and apart from them. Managers will be requested to identify the specific training needs of each individual employee arising from his or her job requirements. The manner in which these training needs will ultimately be met will be the subject of a discussion between the Manager and the departmental Training Development Section. An important focus of these joint discussions will be the most effective means of providing the requisite training.
>
> It is a goal that all training programs be evaluated to determine the extent to which they meet program needs. To assist in this activity, the Training and Development Section shall be seeking the assistance of the Program Evaluation Branch of the Office of the Comptroller General as well as the Departmental Program Evaluation Branch. The aim in evaluating training for the MESP Program as well as all other departmental training will be to ensure that it meets the identified needs efficiently and effectively. Failure of any training programs to meet these needs will result as appropriate in their modification, termination or replacement by redefined and restructured training programs.

Financial Management

9.48 Because the Minerals and Earth Sciences Program is highly decentralized and the various Branches and Sectors operate with a considerable amount of autonomy, there is a need for strong financial management capabilities at both branch and corporate levels. To achieve this, the financial management function has been organized so that the corporate level provides policy guidance and co-ordination and maintains the central accounting system; the remaining financial responsibilities rest with branch officers.

9.49 We found that the performance of the financial function is generally satisfactory, although there are some common and important systems development problems relating to the introduction of the management accounting and reporting system (MARS). Because of these problems, the system, which has been under development for three years, has not proceeded past the pilot project phase.

9.50 MARS has been developed in response to government initiatives in the area of financial management and accountability and is intended to supplement the existing financial information system. Specifications for MARS were developed without adequately surveying the intended users. The result was that certain important features were omitted, while other features, with limited application, were included. Since MARS cannot meet the specific needs of all branches, some branches must continue to supplement it with their own systems. The identifiable costs during the 1981-82 fiscal year for the development of MARS are more than $225,000. This represents one year's expenditure in a three-year program. The Department has recognized the problem with MARS and is currently preparing modifications to the system.

9.51 **The Financial Administration Branch should undertake a thorough assessment of the appropriateness of MARS in relation to the needs of various users.**

> The recommended assessment has been undertaken and the need for certain system modifications has been identified. The departmental MARS Steering Committee is reviewing these modifications and will proceed with the required developmental work.

Mineral Policy Sector

9.52 The Mineral Policy Sector serves as a principal policy development and advisory unit to the Department with respect to the mining industry. Its current budget is $7 million and it has 137 person-years. The Sector also provides advice to the Minister of State for Mines, Minister of State for Economic and Regional Development and other departments on policy issues related to the minerals industry. These issues can include the economic consequences of mine closures and of international competition as well as the health and safety of miners. Its primary objectives, as outlined in the 1981-82 Strategic Overview, are to:

- assess Canadian and world mineral supply capability;
- evaluate and monitor key factors influencing Canadian and world demand;

- co-ordinate development of federal policies and strategies in mineral development; and
- assist less developed countries to develop their mineral resources in a manner complementary to Canada.

9.53 In the past, the Mineral Policy Sector has focused primarily on providing information and analyses of trends and developments in the minerals industry and preparing commodity reports for use by the private and public sectors. The recent Mineral Policy discussion paper, as well as changes in the roles of ITC, DREE and External Affairs, will now require the Sector to develop policy and economic analysis skills that have been, to a large extent, absent. The Sector is now assuming a lead role in researching and defining the federal policies for EMR-sponsored mineral development agreements with provinces and the departments. These changes require the Sector to review its mandate and upgrade its policy development capabilities.

9.54 The rapid changes in the role of the Mineral Policy Sector require active strategic planning to determine possible alternatives and to figure out how the Sector can best meet its mandate with its current and projected resources. We found that, over the last year, the Sector's strategic planning capability has progressed substantially. At this point, the Sector is developing a clearer idea of its role and purpose and is improving its capabilities to monitor and analyse mineral trends, assess alternative roles in relation to other departments, provinces and the industry, and co-ordinate with other organizations which affect mineral policy. Despite these positive steps, further improvements are necessary.

9.55 The Sector still does not have sufficient capability to analyse the economic effects of alternative policy directions or international trends. These are an increasingly important aspect of the mineral industry. The Sector has not developed the expertise to assess alternative roles for itself and has not established a clear process for developing and reviewing strategic issues. Finally, there are no clearly stated assumptions for analysing alternative strategies. For example, assumptions about mining trends and international minerals prices are essential because they provide the basis for the strategic planning process. The organization plans to expand its budget and person-years significantly in the next few years to meet its new responsibilities. Without an improved capability to assess the costs and benefits of new initiatives and their impact on achieving objectives, the Mineral Policy Sector will not be able to ensure value for dollars spent.

9.56 **The Mineral Policy Sector should develop an increased capability to undertake strategic planning, and it should develop a clear process within the Sector to link strategic objectives with operational and human resource planning.**

> The Mineral Policy Sector recently created a Personnel Development Planning Committee reporting to the Assistant Deputy Minister to

> establish a basis for identifying training and development needs and to establish criteria for the priorization of training selection in order to develop a revised 1982-83 training plan and to establish a rationally determined training plan for subsequent years.

9.57 Operational planning in the Mineral Policy Sector is inadequate. We noted inconsistencies between the resource forecasts in various planning documents. Operational plans were developed assuming a full staff complement when some divisions were up to 50 per cent under-staffed. There are insufficient guidelines in the organization for linking operational plans to strategic plans. Reviews of projects have not been conducted to assess their contribution to operational goals.

9.58 **The Sector should develop operational plans that reflect staff availability as well as any other factors that will substantially affect the integrity of the plan.**

> In developing any operational plan, a Sector has two choices: it can assume all authorized positions will be staffed and develop plans which will utilize all its resources, or it can assume it will only have the resources on hand at the beginning of the planning period to carry out work during the period. Given the practicalities of the two alternatives and given that the classification of ES positions was a major problem during the audit period, the Mineral Policy Sector chose to develop operational plans as if all resources would be obtained. The Sector, however, has taken this recommendation under advisement.

9.59 The Sector does not have an adequate human resource planning system to meet its changing requirements over the next few years. It is currently encountering difficulties in acquiring French-speaking staff and people with international mineral experience. To establish the necessary human resource levels and capabilities needed to meet its expanding role, significant improvements will be required in human resource planning and training. Without these improvements, strategic overviews will not include key factors such as the availability of mineral economists. Operational plans would thus be developed without adequate consideration of staff availability and capabilities.

9.60 **The Mineral Policy Sector should develop a human resources plan that is closely linked to the projected operational requirements of the organization. This plan should include forecasts of human resource needs and availability and action plans to acquire or train required staff.**

> The Mineral Policy Sector is taking measures to implement this recommendation. However, the development of a long-range plan for the Sector is dependent on the results of the Mineral Policy Review which is now being completed by the Sector.

Surveys and Mapping Branch

9.61 The Surveys and Mapping Branch is the national organization responsible for mapping Canada. The activities of the Branch include establishing and maintaining the national geodetic system of reference monuments, collecting and distributing topographical and geographical information on the Canadian landmass, and producing, distributing and selling maps and charts for public, industrial and military use. Surveys and Mapping has 961 person-years and a budget of $40.4 million.

9.62 In the past, the Branch has been concerned primarily with carrying out its operational activities. However, the advancement of new technologies, especially computerized mapping from digital information, has created new functions for the Branch and new ways of accomplishing existing tasks. It has also created new requirements for a strategic planning process that will help in planning the changing activities of the Branch in relation to other branches of EMR, other federal departments, the provinces, industry and the public.

9.63 **Organization.** The Surveys and Mapping Branch is organized into six divisions: Geodetic Survey, Topographical Survey, Legal Surveys, International Boundary Commission, Geographical Services and Reproduction and Distribution. A Branch Headquarters Unit is responsible for overall management.

9.64 We audited the Branch Headquarters Unit, and the Topographical Surveys, Legal Surveys, and Reproduction and Distribution Divisions.

9.65 **Planning.** Several major changes have direct implications for planning in the Branch. The introduction of computer technology into the surveying and mapping process is a major element in many divisions, particularly the Topographical Surveys Division. Digital mapping, computerized geographical information systems, sophisticated positioning systems for geodetic surveying and the increasing role of the provinces in mapping could shift the emphasis of the Branch from map production to storage and retrieval of data held in decentralized data banks. In the long run, remote sensing has some potential to increase the efficiency of topographical mapping.

9.66 At the time of our audit, the Branch had not fully assessed the strategic issues facing the organization or the potential of new approaches that could assist it to accomplish its mandate more efficiently. Planning is satisfactory in most respects, but it deals mainly with daily operating activities like producing maps or carrying out surveys. Management has had difficulty divorcing itself from these daily concerns so that it can assess new approaches or alternatives for accomplishing the organization's mandate.

9.67 Surveys and Mapping Branch has recently begun to assess its changing role in response to the potential of digital mapping and develop new approaches to carrying out its functions. At the time of the audit, however, the Branch had not developed any formal plans in this regard.

9.68 **The Surveys and Mapping Branch should develop a strategic plan that outlines how the role of the Branch is expected to change over the next few years and the implications of this for organizational arrangements, budget expenditures, human resource requirements and relationships with clients.**

> Studies are currently under way to define the future role of the branch, taking into account organizational structure, relationships with clients and the need for human and financial resources. A report and recommendations are expected to be considered during the next fiscal year.

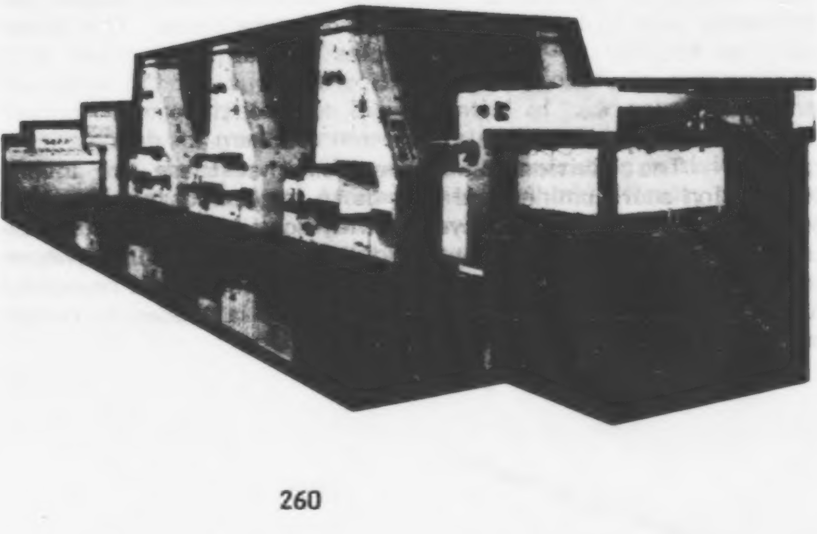
9.69 **Inventory management.** The Reproduction and Distribution Division currently stocks 15,000 map titles, distributing them through mail order, 7 consignment centres and 850 sales outlets at the rate of 3 million sheets per year. The Division also prints some 3,000 different titles annually for a total volume approaching 8 million copies. About half of this is contracted out.

9.70 The techniques for managing and controlling production and inventories of stock for distribution are not adequate and do not reflect modern industrial management practices.

9.71 The Reproduction and Distribution Division's inventory of maps averages 20 million sheets at a wholesale value of $25 million. A current agreement with the Department of National Defence requires 400 copies of every map to be stocked at all times for emergency use. The Division does not use modern inventory management practices to ensure that stock levels of maps are not too high in relation to DND requirements and other demand. These practices would take into consideration such things as estimated demand, production levels, storage capacity and costs, and scheduling concerns. Excessive inventories of maps result in additional operating expenses and higher storage costs and ultimately lead to large quantities of obsolete maps. The Branch disposes of as many as 850,000 to 1,000,000 copies a year as a result of its map revision program.

9.72 The Division has recognized that there are inventory control and distribution shortcomings and intends to implement a computer-based system to help overcome them. This system will, however, mechanize only record keeping and control transactions. Thus, the Division may remain unaware of the inventory and production levels appropriate to meet demand and reasonable service levels. A technique for establishing inventory levels is needed to reconcile demand with production and procurement capacity.

Above, a photo of an old press in use in the Surveys and Mapping Branch; below, an example of a new press. The Department estimates that if it had replaced one of its small presses in 1975-76 at a cost of $150,000, it would have saved $900,000 in operating costs alone over a five-year period.



9.73 **The Surveys and Mapping Branch should establish an inventory management system that reflects modern industrial practices.**

> The Department agrees. Management has implemented a project to determine the most economical production and inventory levels for the branch.

9.74 **Printing operations.** Printing operations are inefficient and costly, partly because the presses are obsolete. The Branch's eight two-colour presses print about eight million copies of maps a year in up to nine different colours. Because the current presses have a limited colour capacity, some maps must be passed through the presses four times to obtain the necessary colour combination.

9.75 The Branch has prepared capital submissions for the funds necessary to replace its existing presses with computer-controlled four-colour machines. These will enable it to accomplish current workloads with six fewer personnel and only two presses. The Department estimates that if it had replaced one of its small presses in 1975-76 at a cost of $150,000, it would have saved $900,000 in operating costs alone over a five-year period.

9.76 The replacement of the Branch's printing presses has been under discussion with Treasury Board and the Department of Supply and Services (DSS) over the past few years. The issue has not been resolved because of a dispute between DSS and EMR concerning their respective mandates with regard to printing.

9.77 **The issue of acquiring adequate printing presses should be resolved quickly to avoid continued inefficiencies in printing operations.**

> Agreed. This issue has been discussed by DSS, EMR and Treasury Board. A decision is expected shortly.

9.78 **Human resource planning.** The Branch's staff costs amount to over $24 million, approximately 60 per cent of the annual expenditures of Surveys and Mapping. The technical and professional work force must be able to respond to continuous technological change.

9.79 We found that the Branch does not undertake systematic human resource planning. Human resources are projected on a numerical basis only; there is no specification of the skills required of individuals or how the existing work force is to be prepared for technological change. Training needs are identified haphazardly and are not evaluated in terms of future Branch requirements.

9.80 The Branch has undertaken some staff training in preparing performance appraisals, developing skill inventories in Topographical Surveys and setting up career development plans in Geodetic Survey. The steps that have been taken do not add up to human resource planning at the Branch level.

9.81 The Branch is aware of its weaknesses in this area and has recently engaged a consultant to develop a human resource planning system.

9.82 **The Branch should introduce a human resource planning system which is directly linked to strategic and operational planning. The system should project human resources requirements and training activities and should propose action plans to close identified gaps and deal with problems.**

> As the result of an A-Base Review earlier this year, the Branch is undertaking a study of its human resource requirements. A human resource planning framework will be finalized in November 1982 with implementation of the system planned for fiscal year 1983-84.

9.83 **Security.** We observed that there is a lack of central security policy and central security function to guide MESP in its handling and storage of valuable data. For example, in the Surveys and Mapping Branch we found that security systems are not adequate with respect to storage and access control. The 1982 A-Base Review of Surveys and Mapping indicates that there are no duplicates of air photo negatives; the originals have a replacement value of $137 million. The Review also points out that reproduction materials, or "artwork", from which maps are printed need secure storage along with air photo negatives. Digital data for topographical map compilation is not stored securely and in duplicate. The same is true of much of the geodetic survey data, although the Geodetic Survey Division has a partially completed program under way to solve this problem. The present replacement value of digital topographical data is $1 million. Once all topographical information is stored in this form, the figure will increase to over $70 million.

9.84 The Department is aware of security shortcomings throughout EMR, and the Internal Audit Branch plans to conduct a security audit in the near future. Our section on EDP deals further with this subject.

Earth Physics Branch

9.85 The Earth Physics Branch provides expertise, information and advice regarding geophysical processes that can affect resource development. This Branch, which has a budget of $9.9 million and 169 person-years, has shifted its emphasis in the past few years from scientific research to providing technical advice to a variety of governments and private sector organizations on questions such as geophysical hazards affecting hydro dam construction or damage caused by the construction of pipelines in permafrost zones.

9.86 As a small relatively cohesive organization, Earth Physics has been able to rely on simple management systems complemented by informal project planning, assessment and control. This has provided the Branch with sufficient flexibility to meet the changing demands for its services.

9.87 We found that generally the Branch is managed well. It has been able to respond in the past to changes in operational plans, and project management systems have been developed that are well suited to the needs of the scientific character of the work. There is adequate review of projects and priorities on a continuing basis.

Explosives Branch

9.88 The objective of the Explosives Branch is to administer the Explosives Act and Regulations in the interest of public safety. The Branch has a budget of $1.4 million and a complement of 41 people. Its major functions are to authorize and test explosive , regulate their manufacture, sale, road transportation, issue licences and permits, and inspect to ensure compliance.

9.89 We found that the management of operations is generally satisfactory, but could be improved by the better use of comparative data on actual against planned expenditures. For example, historical data could be used to estimate and classify inspections and to cost inspection tours. These standards could be compared to actual hours and dollars spent. In this way, the Branch would have the necessary information base to assess due regard for efficiency.

9.90 The strategic overview for the Explosives Branch does not include all the strategic issues affecting the organization such as the introduction of new explosives, technological change, or the human resource requirements that will result from changes. By improving the analysis of these trends, the Branch could improve its capability to manage its operations and to respond to changes in the explosives field.

9.91 Although Canada has a good safety record for the handling of explosives throughout industry, the Explosives Branch does not have a system or information base to measure its effectiveness in minimizing accident risk. For example, the Branch does not develop and analyse historical data which relate inspections and other activities to the frequency of accidents or analyse the effects of inspections conducted by other organizations such as the RCMP.

9.92 **The Explosives Branch should develop statistical information that will enable it to analyse the relationships of its activities to the frequency and risk of accidents.**

Specific statistical analyses have not been developed because the accident rate and related risk of accidents are too low to justify, on a cost-effective basis, the additional resources which would be required for a formal rather than a judgemental approach. The priorizing of inspections involves the judgement of experienced inspectors together with company performance information recorded in appropriate files maintained by the Explosives Branch.

Special Areas and Support Functions

IMPAC

9.93 In 1978, the Department initiated a Management and Control program (MAC) designed to remedy perceived weaknesses in management controls identified during the Comptroller General's IMPAC survey of the Department. Twelve sub-projects were identified to achieve department-wide improvements in the same areas such as:

- the process for identifying strategic objectives and revising long-term plans;
- the links between budgets and operational plans;
- reporting systems for performance indicators; and
- the use of cost-based accounting for financial reports.

9.94 As a result of the MAC program, strategic objectives have been identified for the Mineral and Earth Sciences Program and the internal audit and evaluation functions are in place. However, other aspects of the program, such as the management accounting and reporting system (MARS), have not been as successful. This reporting system has been in the pilot project stage for three years, and it is not yet clear that it can or should be implemented. The development costs alone for this system exceed $225,000.

9.95 The MAC program has contributed to developing an improved accountability and management framework for MESP, but it has not kept pace with the Program's changing management requirements. For example, the MAC program does not include improvements in strategic planning or in human resources management. These are very important to the Program at this time. The Program has not fully re-assessed the relevance of the MAC program to its needs and has not developed a new action plan.

9.96 The Department should undertake a complete re-assessment of its Management and Control Program with respect to MESP and develop a new approach based on the current and anticipated management requirements of the Program.

The concerns of the Auditor General over the implementation of the Management and Control system will be addressed through the PEMS Co-ordinator, who forms an integral element in the Strategic Planning and Evaluation Branch. As required, the MAC plan will be modified to reflect the changing requirements of the Department as they are identified, and new or modified systems will be developed for implementation.

Program Effectiveness Measurement and Reporting

9.97 Program effectiveness evaluation is carried out by the Program Evaluation Branch in the Management Practices Sector. The Department has adopted a policy for program evaluation and a long-term evaluation plan and procedures that generally conform to the Comptroller General's guidelines on program evaluation. The results of evaluation are reported to the Associate Deputy Minister and a Management Review Committee composed of senior EMR officials. The budget for 1981-82 was just over $300,000, and the staff complement was six person-years. To date, the Evaluation Branch has produced seven program evaluations, six evaluation assessments and seven related evaluation documents. Our examination covered the assessments and evaluations done after 1978 in relation to MESP. We examined evaluations of Explosives, Surveys and Mapping, and Geological Survey and the evaluation assessments of the Canada Centre for Remote Sensing and Mineral Development.

9.98 We found that the evaluation assessments of remote sensing and the mineral development activity were satisfactory. The evaluation of the administration of Explosives was not satisfactory because of inadequate measures of the effectiveness of the Program. The Geological Survey and Surveys and Mapping evaluations both relied on surveys of specific users to measure their effectiveness. These evaluations were satisfactory, but a more comprehensive methodology could have included a survey of potential users such as the general public and central agencies, as well as some assessment of the economic value of the information produced and its economic effects. The evaluation results were properly reported to management and have resulted in changes at the Program level.

9.99 The long-term evaluation plan adopted in 1981 and revised in 1982 has suffered significant delays. This plan was based on the assumption that the Program Evaluation Branch would obtain specified additional resources. At the time of our audit, these resources had not been provided. As a result, evaluations scheduled in the plan have been delayed, especially evaluations of the energy program. The Program Evaluation Branch needs to obtain the additional resources required to implement the long-term evaluation plan adopted by senior management or modify the plans accordingly.

9.100 Our examination of the management of program evaluation showed that project management was inadequate. Two of the evaluations we examined took considerably longer than originally planned. For instance, the evaluation of the remote sensing activity started in March 1979, and an evaluation assessment were only completed in April 1982. The evaluation of the Geological Survey of Canada started in July 1979 and was still in progress at the time of our audit. There are inadequate management controls over the planning and conduct of these evaluations. Too much time has been spent on lengthy evaluation assessments or descriptive analyses of programs. Terms of reference are vague and do not include detailed work plans or a calendar of evaluation tasks. Consequently, unplanned activities and reports have been added, and the purpose and methodology of studies has been changed while evaluations have been in progress.

9.101 The Program Evaluation Branch should reassess the time and resources devoted to carrying out evaluation assessments and develop an improved project planning and management system that clearly establishes and monitors the expected outputs of evaluation.

> A determined effort is now being made to limit the time and resources devoted to evaluation assessments, although variations will necessarily occur, depending on the size, complexity and maturity of the program component. Recently, management systems, including Branch Work Plans, Project Work Plans and Time Sheets have been adopted, which will be used to monitor and control all phases of program evaluation.

9.102 To monitor program effectiveness, MESP needs to have in place effectiveness indicators that are specific to each activity. Since most of the branches of MESP produce scientific or technical information for a variety of users, one of the best ways of monitoring effectiveness is through continuous user feedback. In many branches, such as Earth Physics, Surveys and Mapping and Remote Sensing, there are formal mechanisms for ongoing communication with users. This includes an array of advisory committees such as the Geoscience Council, the Interdepartmental Committee on Remote Sensing, and the Industrial Advisory Committee on the Earth Sciences. We found that the branches use a wide range of informal mechanisms to monitor effectiveness. They include conferences, peer review and working relationships with industry, government and university contacts. These mechanisms are a good way to monitor the effectiveness of their activities.

Electronic Data Processing

9.103 MESP is primarily concerned with collecting, manipulating and disseminating large volumes of research data. Computer technology can therefore increase the economy and efficiency of data handling in the Program. Our review concentrated on EDP policy and planning, EDP acquisition, and EDP data security and protection.

9.104 The largest source of computer services within the Department is the Computer Science Centre (CSC) which operates as an internal service bureau. It was established in the early seventies as a service organization for the Department and for other governmental scientific groups. Whereas CSC controlled most of the EDP budget in the early seventies, it now represents only 33 per cent of a total annual expenditure of $18.6 million ($12 million for MESP). The Department now has over 100 mini-computers, and several branches in MESP have their own computing centres.

9.105 The rapid development of computer technology has provided many new opportunities to increase efficiency in processing scientific and technical information and in integrating information within the Program; for example, computer systems now automatically collect seismographic information. Automated information systems can not only increase the ability to transfer information between branches but they can ultimately improve access by users.

9.106 At the time of our review, there was no evidence of department-wide EDP policies or strategies for the supply of computer services, or long-range management plans to meet computing requirements. The Department is aware of this situation and has retained the services of a consultant to assist it in preparing the EDP policy required by Treasury Board. This work has just begun. The importance of clear EDP plans and guidelines in realizing gains in the economy and efficiency in the Program needs to be further emphasized by senior management.

9.107 We found that the present service role of CSC does not lend itself to developing overall plans for MESP with respect to applying computers to the work of the Program. At the time of our audit, an independent evaluation of the role of the Computer Science Centre had not been carried out to determine its effectiveness in meeting the needs of the Program in this regard and to explore alternative roles, functions and activities.

9.108 **The Department should review its approach to EDP services, develop a department-wide EDP plan that would articulate the role that computers will play in the production, dissemination and storage of scientific and administrative information for the Program as a whole. This review should include reassessment of the present role of the Computer Science Centre.**

> The Department has established an independent EDP adviser who has developed a draft EDP policy along with a planning structure. This is currently (late September) being discussed at the senior management level. It addresses the areas of EDP, office automation, telecommunications and data banks. The draft policy and plan will be submitted to the Computer Policy Committee of the Department in mid-October and to the Senior Management Committee of the Department for final approval early in 1983. A reassessment of the role of the CSC is included as part of this process.

9.109 There was no evidence of department-wide policies and procedures to guide MESP with respect to controlling EDP acquisitions, especially mini- and micro-computers, word processors and office automation equipment. Formal feasibility studies were available for only two of the seven cases we reviewed. EDP equipment of this type is the product of some of the most rapid and fundamental technological advances of recent years and it can, if properly used, greatly increase the efficiency of work by both scientific and administrative users.

9.110 **The Department should establish a policy to ensure that its acquisition of EDP goods and services conforms to Treasury Board guidelines.**

> A policy to ensure that acquisitions by the Department of EDP goods and services conform to Treasury Board guidelines is incorporated in the departmental EDP policy and planning structure now being developed by the EDP adviser.

9.111 Procedures for ensuring the protection of critical or valuable data are inadequate. Risk management methods, which would determine the costs of replacement in relation to the cost of protection, are not used. For example, Surveys and Mapping Branch has spent two years of work and $1.6 million to convert map data to digital information; it is not protected by off-site storage. Similarly, CCRS does not maintain duplicates of certain tapes containing irreplaceable source data.

9.112 **The Department should conduct risk assessments with respect to the need for protecting valuable data and establish appropriate security procedures.**

> Procedures for the conduct of risk assessments with respect to the need for protecting valuable data and establishing appropriate security procedures are incorporated in the departmental EDP policy and planning structure now being developed by the EDP adviser.

Contracting

9.113 Our government-wide study on contracting procedures is reported in Chapter 3. Within EMR, the audit was executed by a joint team from this Office and from the internal audit group. We found that departmental policies and procedures were inadequate to ensure compliance with Treasury Board directives and statutory regulations. In particular, existing circulars do not assign responsibility for the various functions in the contracting process. As well, there is no centralized system to monitor contracting practices and enforce central agency or departmental directives.

9.114 This lack of central direction and control has led individual sectors within the Department to devise their own contracting procedures, often in breach of existing regulations. In many cases, contracts were prepared only after the work or services had begun.

9.115 With respect to service contracts, there was no formal evaluation made during, or at the end of, the contract period. Without written records, there is no documentation on previous performance and management may contract with firms that have already shown a lack of expertise.

9.116 Following the submission of the internal audit report to senior management at EMR this year, the Department is drafting new policies and procedures to improve management and control in this area.

Technology Transfer

9.117 Technology transfer ensures that the results of federal science and technology activities are used by other sectors such as private industry, provinces, municipalities, universities and non-profit organizations. We reviewed the Canada Centre for Remote Sensing (CCRS) and the Canada Centre for Mineral and Energy Technology (CANMET) to examine their technology transfer activities. Both organizations were discussed in Chapter 2 of our 1981 Report on research and development.

9.118 CANMET has recently established a technology transfer organization and is implementing the recommendations on technology transfer that were made to the Department in our 1981 audit of Research and Development.

9.119 The Canada Centre for Remote Sensing is responsible for developing and demonstrating satellite and airborne remote sensing technology and for increasing its use through technology transfer.

9.120 Our interviews revealed that CCRS is highly regarded by federal, provincial and industry representatives in terms of its approach to technology transfer. CCRS successfully employs a broad range of technology transfer mechanisms. Examples include contracting out research and development, a well defined interdepartmental and public-private sector consultative structure, and co-operative federal-provincial demonstration projects. We found that planning, execution and evaluation of individual technology transfer projects are adequate. CCRS could, however, improve its approach to technology transfer by defining more clearly its goals with respect to specific user groups, determining how different technology transfer approaches can reach the potential users, and monitoring the extent to which various approaches have contributed to user acceptance.

9.121 When CCRS was established, it was thought that proven remote sensing technology would provide sufficient benefits to assure rapid acceptance by users. Although progress has been made, the technology has not achieved the anticipated application. To overcome some of the barriers to the use of remote sensing data, CCRS requested and received additional funds and person-years for marketing and demonstration projects. We noted that the central agencies and other departments that reviewed the CCRS submission expressed different perceptions about the role of CCRS in technology transfer. As a result, CCRS is faced with some uncertainty about the priority it should give to technology transfer and about its role in that area.

9.122 CCRS is considering a major new initiative that involves launching a Canadian radar satellite (RADARSAT). If undertaken, this project will have a significant impact on the organization's role and budget, and will offer a range of technological, resource, and economic benefits to Canada. We noted that, although a number of assessments dealing with the costs and benefits of certain aspects of the initiative had been done or were planned, a comprehensive assessment of the available technology transfer options (various Canadian options, buying data from other countries, joint ventures with other countries) in terms of the incremental costs and benefits associated with each had not been performed. CCRS is aware of the need to analyse the options for providing remote sensing data to meet Canadian needs.

9.123 The Canada Centre for Remote Sensing should define its technology transfer role, develop technology transfer objectives in terms of target markets and penetration, devise methods for assessing alternative technology transfer strategies, and establish procedures for evaluating progress, and undertake a comprehensive assessment of RADARSAT in relation to other options for meeting Canadian Satellite data needs.

> The Canada Centre for Remote Sensing is in the process of formally defining its technology transfer role and objectives through EMR strategic planning process. When agreement is reached at the corporate level, the Centre's operational plan will be amended accordingly. This process is expected to be completed by March 31, 1983. By that time all position descriptions at the Director and Chief level will be amended to identify responsibilities for the planning, implementation, control and evaluation of the technology transfer program. The methods and procedures chosen to assess alternatives and evaluate progress will be appropriate to the approved technology transfer objectives. Technical assessments of specific options for meeting Canadian radar data needs have now been completed under the RADARSAT Phase A program or are in progress. These studies will be included in an overall economic assessment which will be completed by the end of 1983 (prior to the start of Phase B).

Information Programs

9.124 One of the primary functions of the Minerals and Earth Sciences Program is providing information for the purposes of resource development and management. The overall objectives of the Program in the Main Estimates call for the provision of timely earth science information. One of the sub-objectives provides for the Program "to increase public awareness and understanding of federal mineral and earth science programs and their social and economic effects." To achieve this sub-objective, MESP has defined a public information program in its operational plan.

9.125 The information function within EMR is divided between a Corporate Communications group and several branch units. The Corporate Communications' function is primarily concerned with providing information to the general public through advertising or general publications. The branch units focus on technical or scientific information for specific audiences such as industry, universities or international organizations. For example, the Geological Survey of Canada provides information to resource industries on the geological structure of a given region; Surveys and Mapping Branch provides topographic maps to a variety of users. MESP is well known for the high quality of technical and scientific information that it is able to provide to these users.

9.126 At the present time, MESP does not have a clearly defined approach to achieving its public information sub-objective. The allocation of responsibilities between the Corporate Communications Branch and the sectors or branches is unclear, and the overall accountability for achieving this sub-objective is confused. Consequently, MESP does not know to what extent it is achieving this sub-objective across the Program.

9.127 In the past year, there have been several new initiatives in the public information area. However, without an overall policy and plan for the Program, the contribution of these initiatives to achieving this public information sub-objective will remain unclear.

9.128 **MESP, in conjunction with the Communications Branch should develop a communications plan that outlines how the Program will achieve its sub-objective with respect to public information and develop procedures to evaluate its achievement of this sub-objective.**

> The Branch has been under very serious pressure to respond to the National Energy Program. The communications requirements of the MESP are clearly recognized to be increasing and the Branch is dedicating additional resources to planning and implementing MESP communications. Planning is moving ahead most successfully in the Earth Sciences Sector and greater use is now being made of pre-campaign testing and post-campaign evaluation. The same approach is planned for the Research and Technology component of MESP.

Information for Parliament

9.129 The Treasury Board has directed departments and agencies to prepare their Estimates in a new form. In accordance with this directive, MESP is drafting a preliminary Program Expenditure Plan for the 1983-84 fiscal year.

9.130 Implementation of the recommendations outlined in this report would contribute significantly to the quality of this Plan. Improvements in strategic planning would enable MESP to provide better information on the overall trends that affect on the Program. Development of an economic analysis capability, within the context of both planning and program evaluation, would facilitate illustration of the contribution of MESP activities to Canadian resource development and management. Human resource planning would increase the capability of the Program to define its personnel requirements. Improvements in computer planning would similarly aid in rationalizing EDP expenditures.

9.131 The Office of the Comptroller General has suggested that expenditure plans include information on program outputs as justification for resource requests. Many of the functions of MESP involve scientific research and, for these, it will likely be difficult to provide output measures. In activities not involving research, such as topographic mapping or inspections in the Explosives Branch, MESP currently develops some output measures; however, controls will need to be introduced to ensure their reliability.

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

INDUSTRY DEVELOPMENT ACTIVITIES

DEPARTMENT OF INDUSTRY TRADE AND COMMERCE - INDUSTRY DEVELOPMENT ACTIVITIES

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10

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE INDUSTRY DEVELOPMENT ACTIVITIES

SYNOPSIS

10.1 In this audit, we examined the financial and management processes and controls of the Industry Development activities administered by the Department of Industry, Trade and Commerce (IT&C). Our examination covered the loan insurance provided as part of the Enterprise Development Program; contributions under the Defence Industry Productivity Program and the Shipbuilding Industry Assistance Program; duty remissions under the Machinery Program; loan guarantees under the Small Businesses Loans Act; and the assistance provided to certain large enterprises that have received special consideration. Assistance provided under these programs includes subsidies, contributions, loans, loan guarantees and insurance, equity investment, remission of duty and tariff protection.

10.2 The objective of the Industry Development activities is to motivate and assist Canadian industries to achieve efficient and sustained growth in producing goods and services and to assist these industries in adjusting to changes in the domestic and international economic environment.

10.3 **Enterprise Development Program.** This program is administered by the Enterprise Development Board and 10 regional boards made up of equal numbers of public and private sector members. IT&C recognizes the need for technical, market opportunity and financial viability analysis on applications for assistance. For proposals considered to have potential, the Department will recommend approval to the Board. Those that are either not eligible or not viable are seldom referred or reported to the Board. In our opinion, the Department should provide Board members with a list of applications that have been rejected and a statement of the reasons for rejection.

10.4 Although the Board plays a key role in this program, we found that, apart from the directive and the regulations, there was no formal written statement defining responsibilities, duties and accountability for members of the Board. Criteria and procedures for selecting projects have not been provided to Board members to help them make decisions on who should receive assistance, so that public money is used in the most cost-effective way.

10.5 On a representative sample basis, we examined the analysis performed by the Department on applications for assistance and found that it varies in quality and completeness. We also found that there are no guidelines covering such things as acceptable levels of potential loss for the program for use in deciding whether to recommend proposals for approval. Furthermore, we found cases in which there was no evidence of supervisory review.

10.6 The success of a project depends on the future of the product produced, and there is always a possibility that the market opportunity will shrink or disappear or that manufacturing costs will be higher than expected. It is essential that the Department be aware of such risks and, therefore, that procedures for analysing, approving and monitoring projects are adequate to keep the Department informed. We found that there are no operating guidelines in the Enterprise Development Program for what constitutes an acceptable level of risk, economic benefit to Canada or lending of last resort. Members of the Board need guidelines in these areas to assist them in rendering effective and consistent judgements on proposals.

10.7 Subsequent to authorizing assistance, it may become necessary to provide additional assistance to enable the project to continue or prevent the company from going bankrupt. We found that there is little documented rationale in the minutes of Board meetings when such amendments are approved.

10.8 In all cases of assistance, there are certain conditions attached to approval. We found little evidence of monitoring approved loan insurance projects to ensure compliance with those conditions.

10.9 **Defence Industry Productivity Program.** The Department of Industry, Trade and Commerce selects projects for assistance under this program. When requested to do so, the Department of National Defence may act as a quality inspector and adviser on the suitability of projects. Prior to the approval of a project, IT&C performs technical, market and financial analyses. We reviewed approved projects selected at random and found that there was little evidence of adequate analysis in these areas. We also found that monitoring of projects to provide reasonable assurance that funds are being used for the purpose intended is inconsistent, informal and irregular. Furthermore, our audit revealed that no documented industry strategies exist to guide the Department in allocating funds so that they will generate the maximum benefits.

10.10 **Shipbuilding Industry Assistance Program.** This program provides subsidies to Canadian shipbuilders for the construction of ships for domestic or export trade. The Department relies on the Department of Supply and Services (DSS) to provide inspections and field audits of projects funded under this program. We found no formal agreement between the two departments to define the work to be carried out by DSS on behalf of IT&C.

10.11 The Shipbuilding Industry Assistance Regulations require repayment of assistance where subsidized equipment is diverted or disposed of within five years of receiving such assistance. We found no procedures in place to monitor adherence to this regulation.

10.12 **Machinery Program.** This program recommends remission of duties on imports of machinery when reasonably equivalent machinery is not available in Canada. The Department's basis for determining availability and hence eligibility for remission under the program is its data base of information on machinery produced in Canada. Procedures for updating the data base or methods to be followed by technical officers in maintaining or increasing their knowledge of any particular industry sector are not fully documented.

10.13 **Small Business Loans.** Under the Small Businesses Loans Act, chartered banks and other approved institutions are authorized to make loans to small businesses. These loans are guaranteed by the federal government. The Department could not provide explicit documented objectives describing what it was trying to achieve under the Act. We could find no procedures for monitoring compliance to the requirement that these loans be used by businesses to purchase or modernize equipment or buildings or to purchase land.

10.14 **Special cases.** We reviewed the role played by Industry, Trade and Commerce in providing loan guarantees to Chrysler Canada Limited and Massey Ferguson Limited. In both cases, we found that the decision to approve assistance was determined by factors external to the Department. The Department's role was to perform financial analysis to assist in quantifying the amounts of assistance and to examine alternative terms and conditions appropriate in the circumstances. We found that IT&C fulfilled its role in a generally satisfactory manner.

10.15 In the case of Canadair, the Government purchased the company in 1976. Since then it has provided Canadair with contributions of $68 million and loan guarantees of $1.35 billion. From 1976 through 31 March 1982, the method chosen for committing the Government was the issuance of Letters of Comfort. The use of Letters of Comfort resulted in circumvention of parliamentary control. The implications of this practice need to be reviewed.

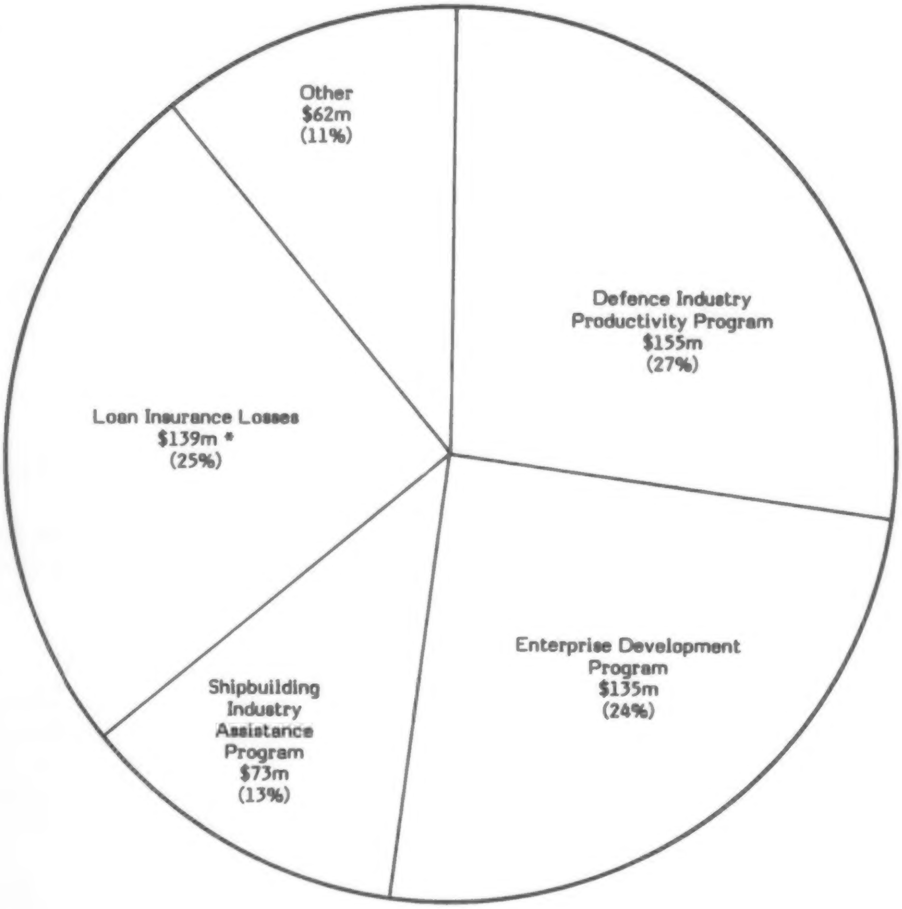
Exhibit 10.1

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

INDUSTRY DEVELOPMENT ACTIVITIES

GRANTS, CONTRIBUTIONS AND LOSSES FOR YEAR ENDED 31 MARCH 1982

(in millions of dollars)



* Includes $89m in payments to lenders for Consolidated Computer Incorporated

Audit Scope

10.16 In January 1982, the Government announced a major reorganization of the economic portfolio involving the amalgamation of the Departments of Industry, Trade and Commerce and Regional Economic Expansion into the new Department of Regional Industrial Expansion. Because of the reorganization, we restructured our comprehensive audit to concentrate on the Industry Development activities of Industry, Trade and Commerce -- activities that will continue in the new department. Specifically, we examined the following industrial assistance programs administered by IT&C which, in 1981-82, accounted for $564 million or 63 per cent of IT&C's budget and provided $1.6 billion of loan insurance and guarantees:

- The Insured Loans segment of the Enterprise Development Program;
- Defence Industry Productivity Program;
- Shipbuilding Industry Assistance Program;
- Machinery Program; and
- loan guarantees under the Small Businesses Loans Act.

10.17 We selected a representative sample of projects within each program for detailed examination of the systems and procedures in place for approving projects, determining eligibility for assistance, and monitoring projects. Our current review also encompassed the recommendations made in our 1978 Report. Exhibit 10.1 indicates the distribution of expenditures for the various Industry Development activities. Exhibit 10.2 sets out the limits for financial support authorized by Parliament and the amounts guaranteed at 31 March 1982; Exhibit 10.3 presents these as a percentage of the total loans and investments guaranteed or insured in support of Industry Development activities.

General Comments by IT&C Management

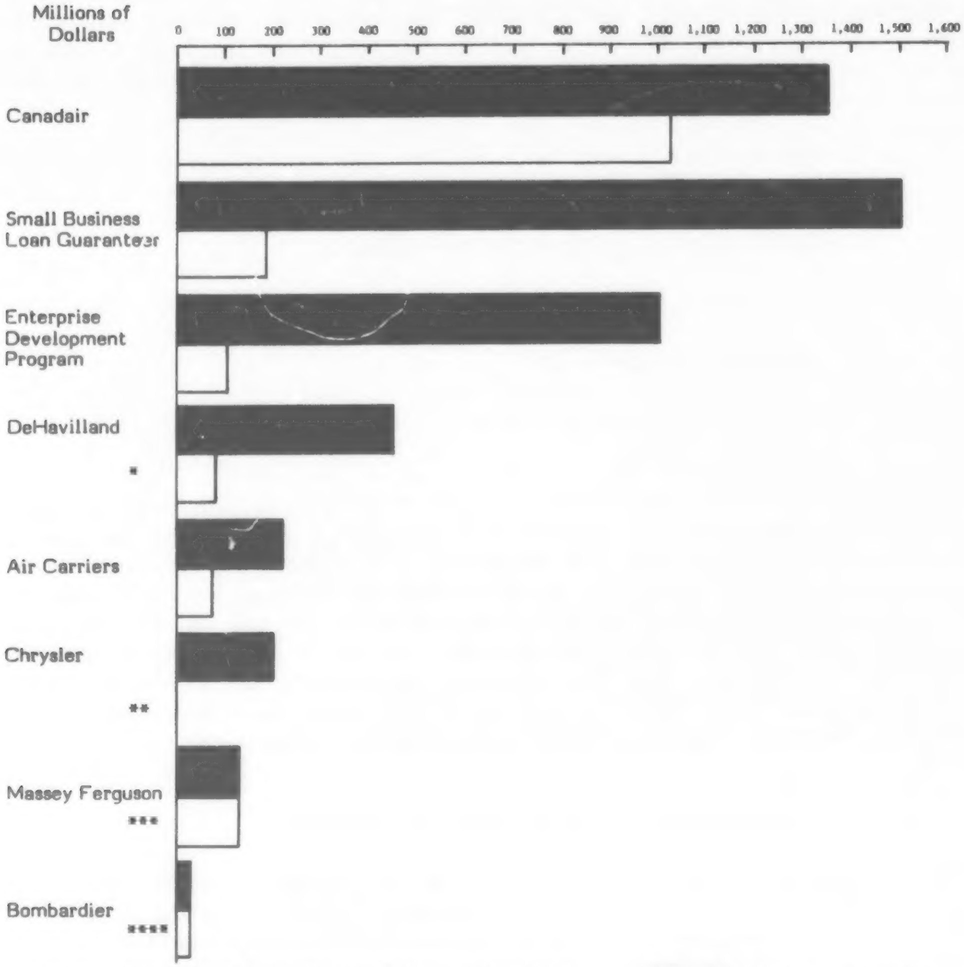
The amalgamation of the Departments of Industry Trade and Commerce and Regional Economic Expansion (DREE) into the new Department of Regional Industrial Expansion (DRIE) integrates IT&C's sectoral and DREE's regional expertise and gives greater priority to regional objectives in the Government's industrial policies and programs. Although the main elements of required industrial support are largely available through the multiplicity of existing IT&C and DREE programs, a rationalized and cohesive structure is being developed that draws upon current strengths and eliminates any gaps, overlaps and inconsistencies. Within this context, considerable attention has been given to the various management principles governing program operation, and the detailed design of the new consolidated programs will endeavour to reflect the concerns of the Auditor General.

Exhibit 10.2

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

INDUSTRY DEVELOPMENT ACTIVITIES

GUARANTEES OF FINANCIAL SUPPORT AT 31 MARCH 1982



* The Department is negotiating with a chartered bank the terms and conditions of a loan guarantee amounting to $346 million.

** Although a guarantee agreement has been signed for $200 million, no loans have been made to date.

*** Payment was made in the amount of $126 million subsequent to 31 March 1982.

**** Payment was made in the amount of $9 million subsequent to 31 March 1982.

■ Limit authorized by Parliament ($4.8 billion)

☐ Amount used to 31 March 1982 ($1.6 billion)

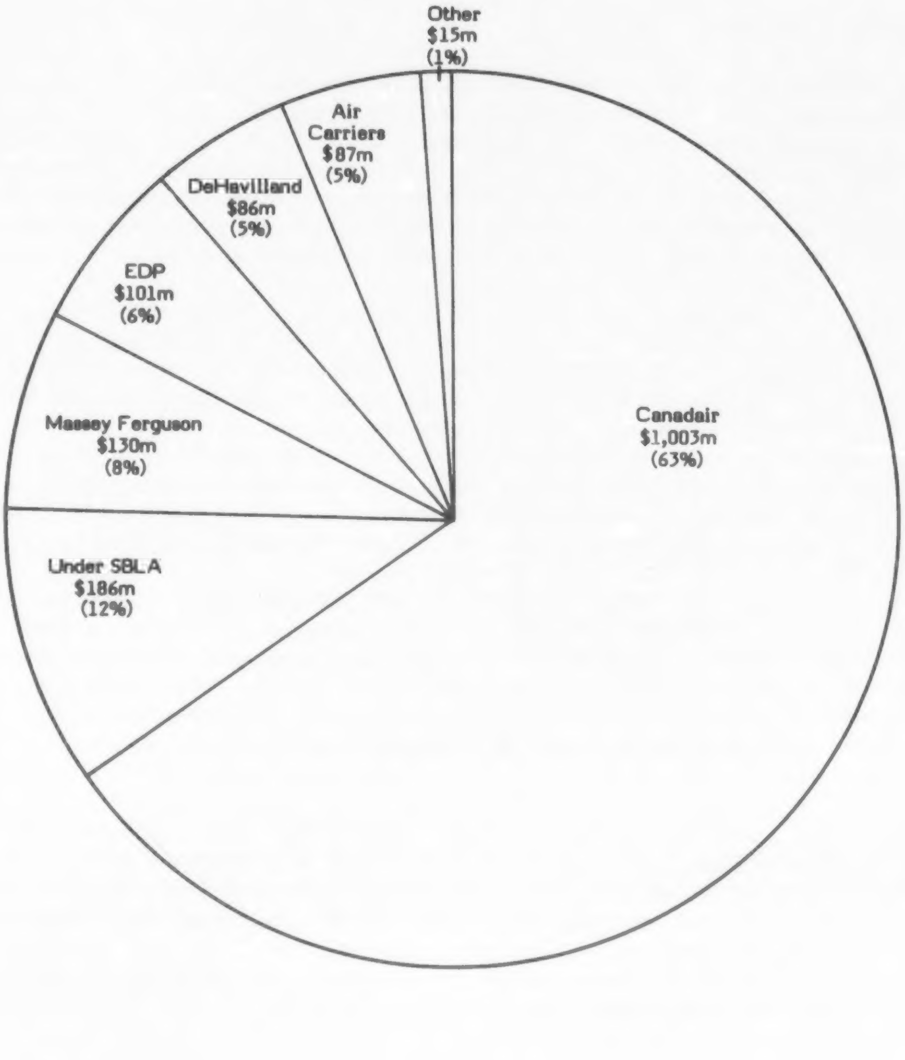
Exhibit 10.3

DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

INDUSTRY DEVELOPMENT ACTIVITIES

DISTRIBUTION OF LOANS AND INVESTMENTS GUARANTEED OR INSURED

AT 31 MARCH 1982



> There is recognition of the need for a clearer definition of specific objectives vis-à-vis the activities reviewed by the Auditor General. Consideration of this aspect, together with the importance being placed on value for money and accountability, has been incorporated in key operating principles which will be fundamental in the new department's management process, with control over program operation exercised at three particular levels: strategic and operational planning; decision-making on specific projects; and ongoing evaluation, audit and monitoring.

IT&C's responses to specific recommendations are printed after the recommendations throughout the text.

Observations and Recommendations

Enterprise Development Program

10.18 The objective of the Enterprise Development Program (EDP) is to encourage the growth of the manufacturing and processing sectors of Canadian industry by providing assistance to qualified companies to improve their viability and international competitiveness. The two major activities supported under the program are the design and development of new or improved products or processes and the adjustment of Canadian industrial and processing capabilities to changing competitive circumstances. EDP provides assistance to businesses in four ways:

- insurance of up to 90 per cent (can be increased to 100 per cent in certain situations) to support term loans made by private lenders to manufacturers and processors for restructuring their operations or to supplement working capital when normal financing is not available on reasonable terms;

- contributions, normally up to 75 per cent of eligible costs, for research, development and design projects, provided the project represents a significant burden on the company's resources;

- contributions, normally up to 75 per cent, toward fees for consultants for various types of assignments, including feasibility studies, productivity enhancement studies and product development and design; and

- direct loans, available in only limited circumstances.

10.19 Decisions on proposals made under EDP are approved by the appropriate Enterprise Development Board, which is established in accordance with the Enterprise Development regulations. The central Board consists of 18 members, of whom 9, including the chairman, are appointed by Governor in Council from the private sector. The other nine are ex-officio members from the public service. Three members constitute a quorum. In carrying out its duties and functions, the Board uses the staff and facilities of the Department of

Industry, Trade and Commerce, allowing both private and public sector involvement in decisions on providing assistance to manufacturing and processing industries. There are Regional Boards in each province that may approve contributions or loans under the program to a maximum of $200,000 to any qualifying company with annual sales of not more than $5 million; all applications in excess of these amounts are referred to the central Enterprise Development Board in Ottawa.

10.20 Each of the various forms of assistance has certain requirements. Applicants for loan insurance must be manufacturers or processors. The business and the project must be viable. For loans and loan insurance, the company must be unable to obtain alternative financing on reasonable terms or conditions from normal sources. For contributions, the project must represent a significant burden to the company in relation to its resources. Applicants for innovation or design assistance must be incorporated companies.

10.21 In 1981-82 under EDP, contributions totalling $135 million were approved, and a total of $101 million in loan insurance was outstanding at 31 March 1982. We concentrated our examination on management controls over approving and monitoring loan insurance only, because the management processes for contributions are similar to those for contributions under the Defence Industry Productivity Program, which was examined in detail and is reported later in this chapter.

10.22 The Enterprise Development Board (EDB) is responsible for administering the Enterprise Development Program in accordance with the regulations, which specify that all loan insurance must be approved by the Board. This is a key activity in the program. It is essential that this activity be supported by a management framework that includes documented decision criteria for project approval and termination. There is also a need for a clear definition of the relationship between the Enterprise Development Board and the Deputy Minister and between the Enterprise Development Board and the various branches of the Department responsible for technical, legal and financial analysis and advice, and for monitoring and evaluating the program. In our review of the management process, we noted that, beyond the regulations and the broad descriptions in the program directive, there was no formal written statement defining responsibilities, duties, delegation of authority and accountability relationships between the Board and the Department. Without such a statement, it is difficult to hold departmental management or Board members accountable for decisions made under this program.

10.23 The Department should prepare, with the Enterprise Development Board, a written statement defining the roles, responsibilities, authority and accountability of the Board.

> The Department comments that modifications to the structure and membership of decision-making boards for departmental programs are currently being reviewed in the context of the general comments provided earlier. One of the products of this review will be a written statement defining the roles, responsibilities, authority and accountability of the board.

10.24 To perform efficiently and effectively, Board members need written statements clearly defining the objectives of the Enterprise Development Program and selection criteria and procedures to assist them in rendering effective judgements on proposals. Without formal guidelines or criteria for approving and processing applications for loan insurance and for terminating assistance, applicants may not receive consistent treatment, and public funds may not be used effectively.

10.25 We found that private sector members do not receive terms of reference when they are appointed to the Board. Board members, as a result, may not be sure what is expected of them and also may not be sure of the criteria related to government objectives to guide them when making judgements on proposals.

10.26 **The Department should provide members of the Enterprise Development Board with formal criteria to assist them in decision-making.**

> IT&C replies that the members of the Enterprise Development Board are provided with explicit criteria as contained in the Enterprise Development Regulations. The requirement for formal criteria will be reviewed in the context of the requirements of the Board.

10.27 Board members also need information from the Department regarding the results of their decisions. Analysis of decisions and decision-making is important for evaluating the effectiveness of the Board's approval process and for providing an indication of the effectiveness of the Enterprise Development Program as a whole. We found that no such analysis has been carried out. Furthermore, the Board was not informed about applications that were rejected as ineligible by the Department. Knowledge of rejected proposals and the reasons for their rejection is needed by the Board so it can discharge its responsibility in accordance with the Enterprise Development regulations, in particular with respect to ensuring that eligibility criteria are being applied properly.

10.28 **The Department should provide Board members with information on the results of their decisions and on the performance of the Enterprise Development Program as a whole, as well as a list of applications not submitted to the Board and the reasons for rejection.**

> The Department replies that this recommendation has considerable merit and will be implemented once the new structure of decision-making boards has been finalized.

10.29 When recommending assistance, it is essential to place emphasis on analysing and documenting the viability of a proposal and the contribution it would make to the Program's goals and objectives. The Department recognizes the need to analyse the applicant's management and financial structure, market opportunities and constraints, projected future performance and ability to repay government insured loans to private lenders. We found, however, that the quality of analysis carried out by the Department varies, and in some cases there was no evidence that any analysis had been performed.

10.30 There should also be methods of defining economic benefit to Canada and acceptable levels of potential loss. Without such standards or guidelines, decisions on whether to recommend government assistance will be difficult and at best arbitrary. Their lack can also lead to inconsistency in recommending for or against approval.

10.31 **The Department should prepare and promulgate formal standards or guidelines for determining what constitutes economic benefit to Canada and acceptable levels of potential program loss under the Enterprise Development Program and should ensure that consistent quality analysis is carried out on submissions.**

> IT&C comments that principles consistent with this recommendation are being embodied in the new program structure which is under development.

10.32 Subsequent to authorizing assistance, it is frequently necessary to amend certain terms and conditions of the agreement or increase support. It is important that approval of amendments or increased support follows rigorous analysis procedures similar to those used in approving the original proposal for assistance. We found that there is little evidence of analysis to support the recommendations for amendments to assistance agreements and that, in certain cases, amendments were signed by only one of the two branches that are required to sign prior to approval. These are the Corporate Analysis Branch, which is responsible for performing analyses of financial and management viability, and the appropriate Industry Sector Branch, which is responsible for analysing market opportunities and the technical viability of the product. If both branches have not signed, there is no assurance that the required analysis has been adequately performed. Furthermore, we found cases where there was no evidence of supervisory review of the analysis performed for decisions on loan insurance; values range from $18,000 to $27 million.

10.33 In some cases, additional loan insurance requests were of a crisis nature. The analysis and examination carried out on them focused on events of the moment, such as preventing a company from going bankrupt, rather than on placing the current crisis in the context of continuing poor performance and possibly recommending termination. In other cases, we found that departmental analyses and recommendations do not give adequate attention to product costs or market demand. Above all, there are no procedures for ensuring that all relevant and reliable information on companies is obtained and used for decision-making.

10.34 **Submissions to amend authorizations of assistance should be subject to the same rigorous analysis as the original proposal. Analysis should be documented and should include explicit consideration of termination. The two branches responsible for signing the original proposal should also sign off on such submissions.**

> The Department replies that frequently, in loan insurance projects, companies are threatened with imminent bankruptcies with consequent loss of employment if immediate changes to terms and conditions of their financing cannot be made. Rigorous analysis is always undertaken, and consideration of the effects of not allowing an amendment is invariably a principal consideration. In these cases, time does not always permit the provision of detailed written reports, and in the future, care will be taken to document all cases.

10.35 We found inadequate practices for monitoring projects assisted under EDP to ensure that the level of potential loss does not change and, if it does, that the necessary decisions to terminate or to accept the risk of loss are taken. During the past year, many ongoing projects were not reviewed by the Department to determine whether the firm and the private lenders were complying with the conditions of the insurance agreement or if the firm's circumstances had changed. There is no system for identifying projects where reviews have pointed out problems and bringing these to the attention of management. Similarly, there are no procedures for monitoring these projects to ensure that the problems are solved. Without adequate monitoring, the government's liabilities and losses under the program can be significantly increased.

10.36 **The Department should establish a procedure for the regular review of projects assisted under the Enterprise Development Program.**

> IT&C replies that a procedure for the regular review of projects will be implemented as part of the revised administrative procedures for program activities which are currently under development.

10.37 To assist in monitoring projects and making program decisions, management information on projects, including project rejections, should be collected and reported regularly to the appropriate level. We found that there are multiple information systems in the Department and that program files are stored in five different locations. Duplication is extensive and there are gaps in information in each area. Although there is a significant amount of data generated by different systems or groups within the Department, it is frequently out of date, in conflict with other information and viewed as inaccurate by potential users.

10.38 The Department should co-ordinate its systems for collecting and reporting project information and ensure that the information provided by such systems is as accurate, up to date and complete as possible.

> The Department replies that the co-ordination of departmental information systems is an integral part of the departmental reorganization.

10.39 To protect the Crown from losses as a result of providing loan insurance, the Enterprise Development Board is authorized under the Enterprise Development regulations to purchase equity in a company. In the case of Consolidated Computer Incorporated (CCI), for example, the Board authorized acquisition of a large equity position and played an active management role by appointing a member of the Board as Chief Executive Officer of the firm. Under such circumstances, the Board may feel that it has an obligation to continue supporting a firm because it has assumed some direct responsibility for its operation, even though the business no longer appears viable. The Board may also be tempted to provide further support in the form of loan insurance, thereby delaying the point at which the company is forced to default on its loan and the resulting loss is disclosed to Parliament.

10.40 For corporations in which the Government has assumed full or part ownership through the Department, decisions on future assistance should be independent of the Department because of the conflict of interest inherent in ownership.

> IT&C replies that because of the government-wide impact of this recommendation, the Department will have to seek central policy guidance to resolve this issue.

Defence Industry Productivity Program

10.41 The Defence Industry Productivity Program (DIPP) operates in support of co-operative international defence agreements for research, development and production. In recent years, the objective of DIPP has been to develop and sustain the technological capability of the Canadian defence industry to generate economically viable defence exports and civil exports related to that capability. The Department's aim is to assist the Canadian defence industry by contributing to selected development projects, to the establishment of production capability and qualified sources for production of component parts and materials, and to the cost of acquisition of new advanced equipment required for plant modernization.

10.42 To be eligible for assistance under DIPP, the Department's criteria require that a company be incorporated in Canada and that it substantially undertake the project in Canada. The project must:

- be compatible with the structure, resources and potential of the company and with departmental strategies;
- be directed toward defence or defence-related export markets. There must be reasonable evidence of demand for the intended product in these markets and substantive indications that the company can meet demand, such that cumulative revenues for the first 5 years of production will be at least 10 to 20 times the DIPP contribution, depending on Canadian content; and
- demonstrate the potential for generating an acceptable rate of return on the investments made by the company and the government. This return would normally take into account such factors as incremental export sales, import replacement, employment, profit, and capacity utilization.

10.43 Assistance is provided primarily in the form of non-repayable contributions, except that when certain conditions are met with respect to future sales, a portion of the assistance may be repayable to the Crown. During 1981-82, $155 million was provided as contributions to DIPP projects. In addition, DIPP provided loans of $11 million during the year to assist in acquiring new advanced equipment.

10.44 DIPP contributions are given to companies on a project basis, and each project is subject to an agreement between the Crown and the company. Selecting, implementing and monitoring projects is a complex process involving several divisions and branches within Industry, Trade and Commerce as well as participation by the Department of National Defence (DND) and the Department of Supply and Services (DSS). IT&C selects, implements and monitors projects while DND may act as a quality inspector and advise on the suitability of projects. DSS acts as the contracting arm of IT&C in preparing agreements between the Crown and the recipient and by performing related duties like certifying progress claims for adherence to the contract.

10.45 Because the Department has discretion not only to select the companies to be assisted but also to assist them in selecting projects within their companies, we reviewed the project selection process including the application of eligibility criteria and supporting documentation. In addition, we examined departmental monitoring procedures for projects already implemented. This included a review of project control during the progress of the work as well as procedures to identify amounts due to the Crown arising from completed projects.

10.46 Because assistance resources are limited, we expected to find documented industry strategies that would establish a framework within which the sector branches could set priorities for maximizing the benefits of the assistance given. Such strategies would include the rationale for supporting certain sectors of industry and assess the relative priorities of defence and civil sales and government procurement, as well as trade offs between employment and productivity. They would also address questions of co-ordination with other departmental programs within and outside IT&C, relationship to the social and economic goals of Government, and other economic considerations. Our audit revealed that no documented industry strategies exist. Thus the Department may not be making the most effective use of the funds in achieving the objectives established for the DIPP.

10.47 **The Department should develop industry strategies and a system for ranking projects in order of priority so that the allocation of funds for the Defence Industry Productivity Program will generate the maximum benefits.**

> The Department replies that a system for ranking projects in order of priority in the context of industry strategies and regional priorities is currently being implemented in the DIP Program as well as all other Department-funded programs.

10.48 Without cost-benefit analysis of the relationship between the amount of assistance to be provided and the level of benefit to be achieved, there can be little assurance that the greatest benefit will be derived from assistance. Our review of implemented projects revealed that this type of analysis has not been carried out for most projects. In addition, we found little evidence that the costs and benefits of providing a lower level of assistance than the maximum allowable amount have been considered when approving company proposals. As well, there is no documented evidence that other programs have been considered as alternatives to DIPP assistance. For example, the eligibility criteria for the Enterprise Development Program do not preclude defence-related projects. This also means that there is little assurance that assistance benefits have been provided in the most economic way.

10.49 **The Department should ensure that cost-benefit analyses are carried out as part of the review of proposals for assistance under the Defence Industry Productivity Program.**

> IT&C replies that the principle of cost-benefit analysis is included in the decision-making criteria for DIPP. Obviously the degree and extent of the analysis must be related to the amount of the assistance and the complexity of the case, and this is borne in mind in the review of proposals. The principles and implementation of cost-benefit analysis will be a subject of the operations manual (guidelines) now in preparation.

10.50 Although the eligibility criteria specify that projects must demonstrate a potential for generating an acceptable rate of return on investments, we could find no documented guidelines on what constitutes an acceptable rate of return and how it should be calculated. For example, return on investment could include such things as the benefits to be realized from increased export sales, import replacement and employment, as well as the increase in profits to be generated by the investment. Without these guidelines, there will be no assurance that contributions are given on a consistent basis and that the criteria for eligibility are satisfied.

10.51 **For projects considered for assistance under the Defence Industry Productivity Program, the Department should document and promulgate guidelines on what constitutes an acceptable rate of return and how it should be calculated.**

> IT&C comments that a set of guidelines is being developed to define more explicitly the acceptable rate of return, as part of a new operations manual.

10.52 Departmental policy requires a financial, technical and market opportunity analysis of each project proposal before a decision is made on the acceptability of the proposal. Although the Department claims that appropriate analytical techniques are being used, we found little evidence of this or of adequate analysis being carried out. There was often little or no documentation in support of financial, technical and market analysis and no documented rationale to indicate why such analysis had not been done. According to the Department, decisions on the amount of analysis needed are made on the basis of the personal judgement of individual officers. However, there was little documented support for such decisions. Without proper documentation of what analysis has been performed, it is difficult to carry out supervisory reviews of the consistency and quality of approvals.

10.53 **The Department should ensure that the results of its analyses of project proposals and the reasons for deciding on the nature and extent of each analysis are properly documented for subsequent review.**

> The Department replies that within the various branches of the Department such as Corporate Analysis Branch, Industry Sector Branches, Defence Programs Branch and Program Office, summary opinions relative to financial, technical and market aspects are provided. In future, these opinions will be properly documented for subsequent review.

10.54 Monitoring should ensure that assistance funds are used as specified in the initial project proposals. Our review of the monitoring function disclosed that the need to monitor is recognized by the Department but that monitoring is inconsistent, without central control and responsibility. Monitoring practices are not fully developed or formalized and do not adequately address basic matters such as scope, methods to be used, frequency, resources to be used, nature and extent of reports to be provided, progress toward project objectives, and enforcement of terms and conditions.

10.55 The Department should implement monitoring practices that ensure that assistance funds are used in accordance with the terms and conditions specified in the contribution arrangements.

> IT&C replies that, at present, each contract provides for adequate monitoring of projects. However, the Department is aware of certain monitoring deficiencies and intends to remedy these by developing monitoring controls.

10.56 Assistance agreements generally provide for repayment of Crown contributions under various conditions. For example, the general conditions for shared cost development contracts state that the contractor shall pay to Her Majesty

> all profits in excess of amounts which the Minister of Industry, Trade and Commerce shall determine to be fair and reasonable derived from the work and from future contracts resulting from the work ... until the total contribution of Her Majesty hereunder shall have been repaid.

Departmental procedures to identify recoverable amounts are inadequate. For example, there is no documented rationale for determining what is "fair and reasonable"; without it, it will be difficult for the Department to know when and how much to recover. We note that, in the past five years, DIPP contributions to projects now completed totalled approximately $400 million. Recoveries from completed projects during the same period were $25 million.

10.57 The Department of Industry, Trade and Commerce should document its policy and revise its procedures for identifying revenue due to the Crown in respect of assistance agreements providing for repayment of contributions so that such revenue can be recovered.

> IT&C comments that work is now under way in conjunction with the redesign of departmental programs to better identify and establish procedures for repayment to the Crown.

Shipbuilding Industry Assistance Program

10.58 The Shipbuilding Industry Assistance Program (SIAP) provides subsidies to Canadian shipbuilders to aid in the construction of ships for domestic or export trade. It also provides assistance to improve performance capabilities of Canadian shipyards.

10.59 In 1981-82, contributions under SIAP totalled $73 million. Contributions are made under shipbuilding industry assistance regulations, which change periodically to allow for different rates of assistance. Subsidies are given to applicants who can demonstrate that they are eligible under the regulations and can show they are financially able to complete major projects successfully.

10.60 We examined the management process for project approval and monitoring for compliance under this program. We were informed by senior officials of the program that significant changes to SIAP were being recommended to Cabinet by IT&C. Because the changes could significantly reduce the relevance of the findings arising out of any detailed audit work, we restricted our examination to a general overview.

10.61 As part of our overview, we sought to examine program objectives. However, we were informed by senior officials that no documented objectives existed other than those that might have been contained in the initial Cabinet submission setting up the program several years ago. The Department could not provide program directives outlining the responsibilities and formal procedures to be followed in administering the projects to be assisted. For example, we would expect to find a detailed directive that would describe, among other things, the following policies and procedures:

- guidelines on operating the program and interpreting the regulations;
- program policy, including specific objectives and strategies to achieve these objectives;
- departmental policy on acceptable levels of risk and criteria for project ranking;
- eligibility criteria that would expand on the eligibility requirements outlined in the regulations to provide detailed information on what constitutes an eligible applicant, giving consideration to other departmental objectives;
- detailed procedures to be followed from the initial receipt of an application through to terminating projects and closing files; and
- organizational responsibilities, including inspection of vessels by the Department of Supply and Services and field audits of contractors' claims by the Audit Services Bureau.

10.62 **The Department should develop and promulgate directives for the Shipbuilding Industry Assistance Program that cover operating policies, strategies, eligibility criteria and other organizational and procedural controls.**

10.63 The Department of Supply and Services provides inspection certification and performs field audits of the projects for which assistance is being requested under SIAP. We would expect, therefore, to find that IT&C had defined the work to be performed by DSS. As a minimum, we would expect a formal plan to be approved and monitored by IT&C to define the work to be performed by DSS and the nature and extent of the reports to be provided. We could find no evidence of this.

10.64 For the Shipbuilding Industry Assistance Program, the Department of Industry, Trade and Commerce should define the work to be carried out on its behalf by the Department of Supply and Services.

10.65 The audits performed by the Audit Services Bureau are reported regularly to the Department. Frequently the Bureau raises qualifications in its reports because of various problems encountered in the field. For example, in some cases, the Bureau does not have access to confidential management payroll information or is unable to verify the propriety of inter-company management fees, even though this is provided for in the terms of the contribution agreement. Although the Department reviews these reports and makes decisions as to the propriety of various costs claimed, we could find no rationale or formal system in place to indicate the departmental policy on difficult matters such as inter-company management fees. Instead, questions raised in these reports are resolved on the basis of the judgement of the individual departmental officers involved with the project. Without documented guidelines on how problems identified by the Audit Services Bureau reports should be resolved and without explicit policies on the need for additional audit work in certain cases, there is a danger that ineligible project costs will be paid.

10.66 The Department should establish and document a policy and procedures on the disposition of concerns raised by the Audit Services Bureau in its field audits of projects for which assistance is being provided under the Shipbuilding Industry Assistance Program.

10.67 The Shipbuilding Industry Assistance Regulations stipulate that performance improvement grants to shipyards must be repaid if the subsidized assets are diverted or disposed of within five years from receiving assistance. Although $25 million has been given in the past five years for shipyard improvement, we could find no procedures in place for monitoring adherence to this regulation or any evidence that adherence was being monitored. Thus, the Department has no assurance that subsidies will be used for the intended purpose for the prescribed length of time.

10.68 The Department should develop and implement procedures for monitoring compliance with Shipbuilding Industry Assistance Regulations that provide for recovery of performance improvement grants under certain conditions.

> The Department replies to the recommendations relating to the Shipbuilding Industry Assistance Program that, with regard to the Auditor General's comments on the need for policy directives, it is their intention to have these drawn up so as to conform with those of the "Umbrella" program of the Department. The Program Advisory Committee intends to develop a policy directive for the Umbrella program by January 1983. While SIAP and certain other programs will not be consolidated into the Umbrella program, this policy directive will be used to arrive, whenever practical, at a uniform departmental procedure for program management and delivery.

Machinery Program

10.69 To encourage Canadian industrial development, the Machinery Program (MACH) provides tariff protection to Canadian machinery manufacturers, while at the same time enabling machinery users to acquire advanced production equipment not available in Canada at the lowest possible cost. Remission of duty under the program is authorized by Governor in Council on the recommendation of the Minister. An interdepartmental Machinery and Equipment Advisory Board (MEAB), including representatives from the Departments of Industry, Trade and Commerce, Finance, and National Revenue, is responsible for advising the Minister on the eligibility of imported machines for remission of duty.

10.70 The value of imports of machinery and equipment covered by the program was estimated by IT&C at $4.8 billion for 1981. During that year, the MEAB reviewed 28,755 applications and authorized remission in respect of 26,815 of these applications. The Department estimates the value of remission of duty on eligible imports in 1981 at $400 million, representing potential net savings for machinery users.

10.71 Both the Department of Industry, Trade and Commerce and the Department of National Revenue - Customs and Excise are involved in processing remission applications. IT&C determines Canadian availability, and the Department of National Revenue ensures that goods are classified under the appropriate tariff item.

10.72 IT&C processes applications by applying the primary eligibility criterion, which is the availability or non-availability of reasonably equivalent machinery in Canada, to each application received. To determine such availability, the Department maintains an information base on Canadian manufacturers of machinery and the products they produce. We reviewed the Department's procedures to maintain a data base and other information that would provide reasonable assurance that decisions to approve or reject applications were based on accurate knowledge of the availability of Canadian goods.

10.73 In our 1978 Report, we recommended that "the Machinery Branch should investigate the consequences of incomplete and inaccurate information in its data bank on Canadian machinery manufacturing capabilities, determine appropriate standards of completeness and accuracy and take necessary steps to meet these standards." In response to the recommendation, the Department engaged a firm of consultants to address administrative procedures pertaining to the program operations. Implementation of the necessary changes is in progress.

10.74 Maintaining a data base for several industry sectors is a complex operation requiring specific expertise. We would expect to find a comprehensive program directive setting out the policies and procedures to be followed for maintaining industry knowledge and for using the information to determine eligibility of remission applications. As a minimum, we would expect to find that such policies and procedures had been documented for updating the data base and formalizing the methods to be followed by technical officers in maintaining or increasing their knowledge of any particular industry sector. Without documented policies and procedures, the risk of undetected errors in recommending remission is increased.

10.75 We found that individual technical officers determine Canadian availability by using their knowledge of the industry and of the type of equipment that is being sought. Although the MEAB receives written reviews for difficult remission applications and those for which the value for duty is estimated to exceed $1 million, there is no similar written review on either a routine or test basis for applications where the estimated value for duty is less than $1 million. We noted that, of 26,815 remissions granted during 1981, 92 per cent were for duty valued under $1 million. The technical officer is, however, required by departmental procedures to prepare technical evaluations when the equipment is available and the remission request is rejected.

10.76 **The Department should document its policy and procedures in support of maintaining an up-to-date data base and should formalize the methods to be followed by technical officers in maintaining or increasing this knowledge of industry sectors.**

> The Department agrees, and the Machinery Branch will document the necessary policies and procedures in support of maintaining the data base and the sectoral knowledge of the technical officers.

10.77 **An internal quality review should be performed, at least on a test basis, for remission decisions where the estimated value for duty is less than $1 million.**

> IT&C comments that quality review of applications assessed by technical officers currently takes place at a number of points in the administration of the Machinery Program. The only areas where quality reviews are not formally documented are in respect of

applications covering machines of less than $1 million in value which are clearly not available from Canadian production. A review procedure, on a test basis, will be introduced in response to this observation. If the review indicates that procedures additional to those already in place are warranted, they will be implemented.

Small Business Loans

10.78 The Small Businesses Loans Act (SBLA) provides new or existing small businesses with access to medium-term loans for purchasing or modernizing equipment or buildings or for purchasing land. Under the SBLA, the Department's major role is to provide loan guarantees to private sector lending institutions, such as chartered banks, which then make loans to eligible customers as defined in the Act. The Department sees the guarantees as an impetus to lenders who might be unwilling to provide loans on a conventional basis.

10.79 Lenders are expected to make loans under the SBLA with the same care as in their ordinary business and to use normal commercial lending practices when entering into agreements with customers. The following general terms and conditions apply to eligible loans:

- The maximum amount a small business may have outstanding under the SBLA at any one time is $100,000.
- The rate of interest is set at 1 per cent over the prime lending rate.
- All SBLA loans must be secured by land, chattels, mortgages or other securities deemed adequate by the lender. Other terms and conditions are negotiated between the lender and borrower.
- Generally, loans must be repaid within 10 years with instalments paid at least annually.

All chartered banks and similar institutions designated as lenders under the SBLA are authorized to provide loans.

10.80 Loans made under the SBLA during 1981 numbered 17,005 for a total value of $504 million. The lenders are responsible for generating loans and for day-to-day loan administration and control. The Department's responsibilities include ensuring that lenders and customers comply with the Act, processing lenders' claims for government compensation on customers' defaults, maintaining adequate records of losses and other management information, initiating recovery efforts and calculating and disclosing the Department's liabilities in the Public Accounts. We reviewed management controls over generating and monitoring loan guarantees, payment of claims and recovery of losses.

10.81 Good management control over loan guarantees requires clear program objectives and appropriate departmental involvement in the loan process. For example, the reasons for providing assistance under the Act, together with the Department's operating policy and strategies, should be clearly documented. Reasons for assistance could address matters such as increasing employment and competition, promoting the growth of small businesses and so on. We could find no generally accepted written objectives describing what the Department was attempting to achieve. In our opinion, this lack of objectives impedes adequate management control and accountability.

10.82 **The Department should establish specific objectives for operating the Small Businesses Loan Administration.**

> The Department replies that these will be included in the next revision of the Act prior to 31 March 1983.

10.83 Departmental monitoring of loan guarantees consists primarily of gathering, for statistical purposes, data such as the number and value of loans issued. Except for reviewing documentation in support of loss claims submitted by private lenders, the Department has no procedures for monitoring compliance with the SBLA. Where no loss claims are submitted, the Department has no assurance that loans are used according to the conditions set out in the SBLA.

10.84 **The Department should develop and implement procedures for monitoring compliance with the Small Businesses Loans Act, at least on a test basis, covering loans where no default has been reported.**

> The Department will examine the feasibility, including cost, of implementing this recommendation.

10.85 Our review of claims processing disclosed generally adequate departmental procedures to ensure that only eligible claims are compensated. However, some improvement is needed in investigation of claims where fraud or questionable acts are suspected. For example, although the Department acknowledges that questionable practices occur, it has no tests or other procedures for use in identifying and investigating questionable practices or for determining what action should be taken as a result.

10.86 **The Department should develop and implement procedures for investigating claims and taking remedial action where questionable practices under the Small Businesses Loans Act are suspected.**

> The Department will formalize its procedures concerning questionable practices. It is noted that, currently, the RCMP investigates all cases of suspected questionable practices.

10.87 In recent years, the Department has had to honour its loan guarantees at a rapidly increasing rate; in 1981, the Department reported payments of $6.8 million in loan guarantees. Because of current adverse economic conditions, especially for small business, continued sharp increases in the number and value of claims seem certain. During the audit, we noted weaknesses in the collection procedures, as demonstrated by the following form letter which the Small Businesses Loans Administrative Procedures Manual requires be sent to a debtor on deletion of his account:

> Please be advised that application will be made to have your indebtedness due the Crown ... removed from our accounts and neither we nor our agents will take any further active recovery action.... If, at some further date, you are in a financial position to continue repayments, you will be expected to do so.

In our opinion, this procedure is not conducive to effective recovery action since such action is left solely to the discretion of the debtor, as evidenced by recoveries of only $100,000 in 1981.

10.88 **The Department should develop and implement appropriate recovery procedures for payments made under the Small Businesses Loans Act.**

> The Department replies that prior to claim payment all reasonable recovery against security is made by the lender as demonstrated by the fact that over the life of the program, only $16 million has been paid in claims against total loan authorizations of $1.9 billion. While recovery action has been modest in the past, the Department of Supply and Services will be contracting with collection agencies to improve the recovery record.

Special Cases

10.89 **Chrysler and Massey Ferguson.** In addition to providing assistance under the Enterprise Development Program, IT&C has provided special assistance, or has made commitments to do so, to certain companies. Two recipients of such special assistance are Chrysler Canada Limited and Massey Ferguson Limited.

10.90 In the case of Chrysler Canada Limited, commitments to guarantee loans to a maximum of $200 million have been made. This is similar to, and was a condition of, loan guarantees of up to $1.5 billion (U.S.) made by the U.S. Loan Guarantee Board to Chrysler Corporation, the parent company.

10.91 With respect to Massey Ferguson Limited, IT&C has guaranteed the capital portion of $125 million in preferred shares that were issued as part of a $700 million recapitalization plan.

10.92 We considered the role played by the Department in assessing the financial viability of the companies and in determining the level and nature of assistance to be recommended. We did not review the role played by other participants, including Cabinet, the Ministry of State for Economic Development and the Department of Finance, all of which had considerable involvement in the final decision.

10.93 In both cases, we found that the decision to approve the assistance was determined by factors external to the Department. An interdepartmental committee comprising Treasury Board, the Ministry of State for Economic Development, and the Departments of Finance and IT&C played various roles in the decision-making process. For these reasons and because of the nature of the requests, the assistance did not fit the provisions of the Enterprise Development Program.

10.94 The role of IT&C in these cases included financial analysis to help in quantifying the amounts of assistance and examining alternative terms and conditions appropriate in the circumstances. The amounts and terms and conditions were ultimately authorized by the interdepartmental committee. IT&C fulfilled its role satisfactorily.

10.95 **Canadair.** Since the Government purchased Canadair Limited in 1976, it has provided the company with $68 million in contributions through IT&C. In 1979-80, IT&C also guaranteed $150 million in loans to meet the company's cash requirements. These requirements continued to rise rapidly and, in April 1981, a submission was made to Treasury Board for approval of an additional $350 million in guarantee authority. Only $187.5 million (U.S.) was approved, pending provision of more reliable projections of the company's needs, based on financial, technical and marketing analysis. An interdepartmental Task Force was formed, chaired by a representative of the Department of Finance, to consider support for the loan guarantees requested for Canadair.

10.96 The Task Force reported in January 1982 that Canadair's peak financial requirements would be $1.35 billion. Thus, because earlier estimates were optimistic or unrealistic, and because detailed analysis was carried out to support the later calculation, estimates of Canadair's financial requirements had increased from $350 million to $1,350 million. Because we are not the auditors of Canadair Limited, a corporation wholly-owned by the Crown, we are unable at this time to comment on the validity of the financial and other analysis supporting the determination of the assistance required. However, based on current information available to us, it is our view that $1.35 billion will not be sufficient to maintain the company.

10.97 A guarantee in the amount of $1,350 million was authorized by Parliament, to expire at 31 March 1991. In an effort to ensure that this would be the maximum cash requirement, the Department drew up an agreement with

Canadair, following recommendations of the Task Force report, to control corporate costs more effectively, to monitor performance, and to subject significant matters concerning the company to government review and approval. The reporting and monitoring agreement includes a provision for annual submission by the company of a five-year corporate plan which includes financial, marketing and operating plans. These are to be submitted to IT&C for approval, together with monthly performance and variance reports against the plan, detailing reasons for significant variances and plans for corrective action. We have reviewed this reporting and monitoring agreement and are satisfied that its provisions, if properly applied, can provide the Department with a means of monitoring corporate performance.

10.98 When the Government decides to assist a company such as Canadair, where $1.35 billion of taxpayers' money is at risk, it is reasonable to expect the decision to be supported by clear criteria for providing, continuing or terminating such support, so that benefits sought would be maximized and any losses that might occur would be minimized. On reviewing the analysis performed by the Department and the Task Force, we found that there are no clear criteria or objectives for providing support or for continuing or terminating it.

10.99 Furthermore, from 1976 through 31 March 1982, the method chosen for committing the Government to supporting Canadair was to issue Letters of Comfort rather than loan guarantees. Letters of Comfort, which are equally binding, do not require the approval of Parliament as do loan guarantees.

10.100 **The Department should avoid using Letters of Comfort, which constitute commitments by Government to contingent liabilities without parliamentary approval.**

> The Department comments that as part of its approval to increase the government guarantee to $1,350 million in March 1982, the Treasury Board directed that all Letters of Comfort be withdrawn. This is being done, and by 30 September 1982 Letters of Comfort worth $295 million had been replaced.

10.101 **Consolidated Computer Incorporated.** During our audit of the Enterprise Development Program, the Treasury Board undertook a complete review of the events, decisions, recommendations and actions taken by the Government with respect to Consolidated Computer Incorporated (CCI). This work was done by a special adviser to the President of the Treasury Board. We have reviewed the final report of this study and have concluded that the recommendations are compatible with those made in this chapter concerning the Enterprise Development Program.

DEPARTMENT OF NATIONAL DEFENCE

DEPARTMENT OF NATIONAL DEFENCE

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11

DEPARTMENT OF NATIONAL DEFENCE

SYNOPSIS

11.1 Our audit concentrated on the major management functions on which the economic, efficient and effective operation of the Department depends: departmental planning; measurement of effectiveness; planning major equipment acquisitions; human resource management; and management of computer resources and information systems.

11.2 We found that the Department's management systems are basically sound, in spite of the changes in organization and resource levels that have taken place over the last 20 years. This is so largely because of the strength of the institution and the dedication of its managers and commanders. Still, there is a need for DND to improve its communications with government and its management of human resources and of computer resources and information systems.

11.3 Exhibit 11.1 shows the financial resources authorized for DND in 1981-82; authorized person-years and the distribution of military and civilian personnel are shown in Exhibit 11.2. From 1964 to 1975, the Department faced resource cutbacks in real dollar terms and in authorized person-years. The Government made a commitment to increase funding and personnel levels in 1975, and a major initiative to re-equip the Canadian Forces began.

11.4 DND is involved in procuring increasingly sophisticated military equipment including tanks, fighter aircraft and patrol frigates. This requires coordinated effort in acquiring, training and developing operators and technicians. The Department makes significant efforts in research and development to maintain relevant links with the international research community and to conduct specific projects for departmental and government purposes.

11.5 The Canadian Forces operate under the concept of "forces-in-being", which means that, in the event of hostilities, operations would be initiated and sustained by the Regular and Reserve Forces in existence at that time. The Department is studying the requirements for manpower, equipment and facilities to sustain the Canadian Forces in combat for longer periods.

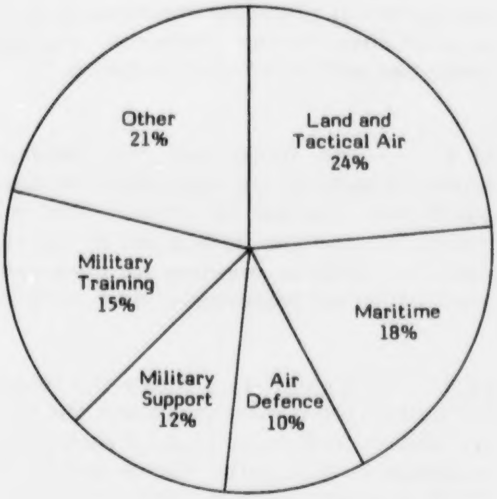
11.6 The organization of DND, summarized in Exhibit 11.3, evolved over the period of reorganization (integration and unification) from 1964 to 1975 and has been stable since 1975. The Defence Structure Review in 1975 confirmed the roles set out for the Canadian Forces in the 1971 White Paper, Defence in the 70s:

- surveillance of our territory and coastlines; that is, protecting our sovereignty;

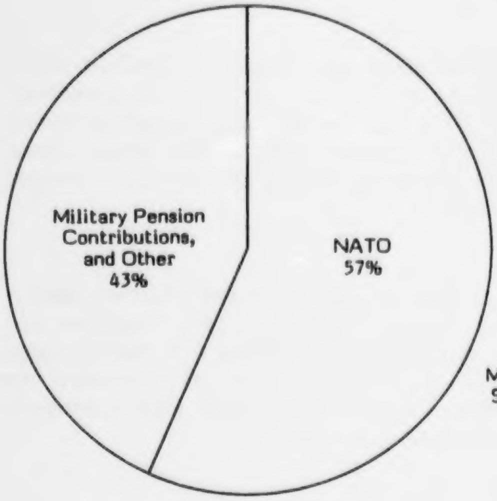
Exhibit 11.1

DEPARTMENT OF NATIONAL DEFENCE
AUTHORIZED EXPENDITURES
1981-82

Personnel, Operations and Maintenance
$ 4,655 million



Grants and Contributions
$ 333 million



Capital
$ 1,163 million

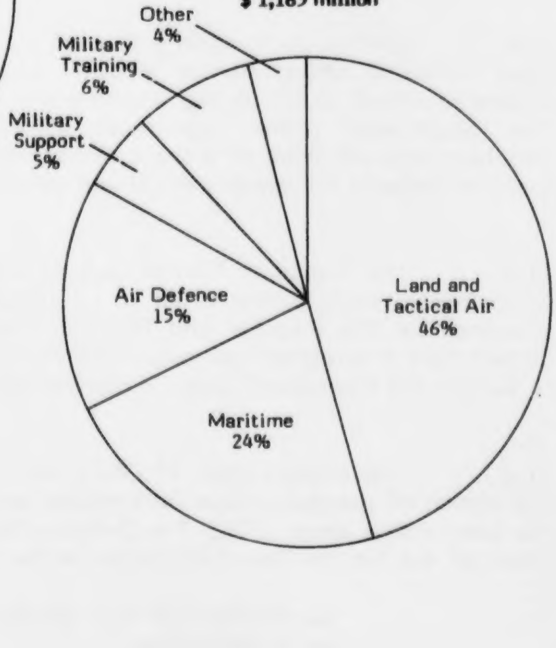
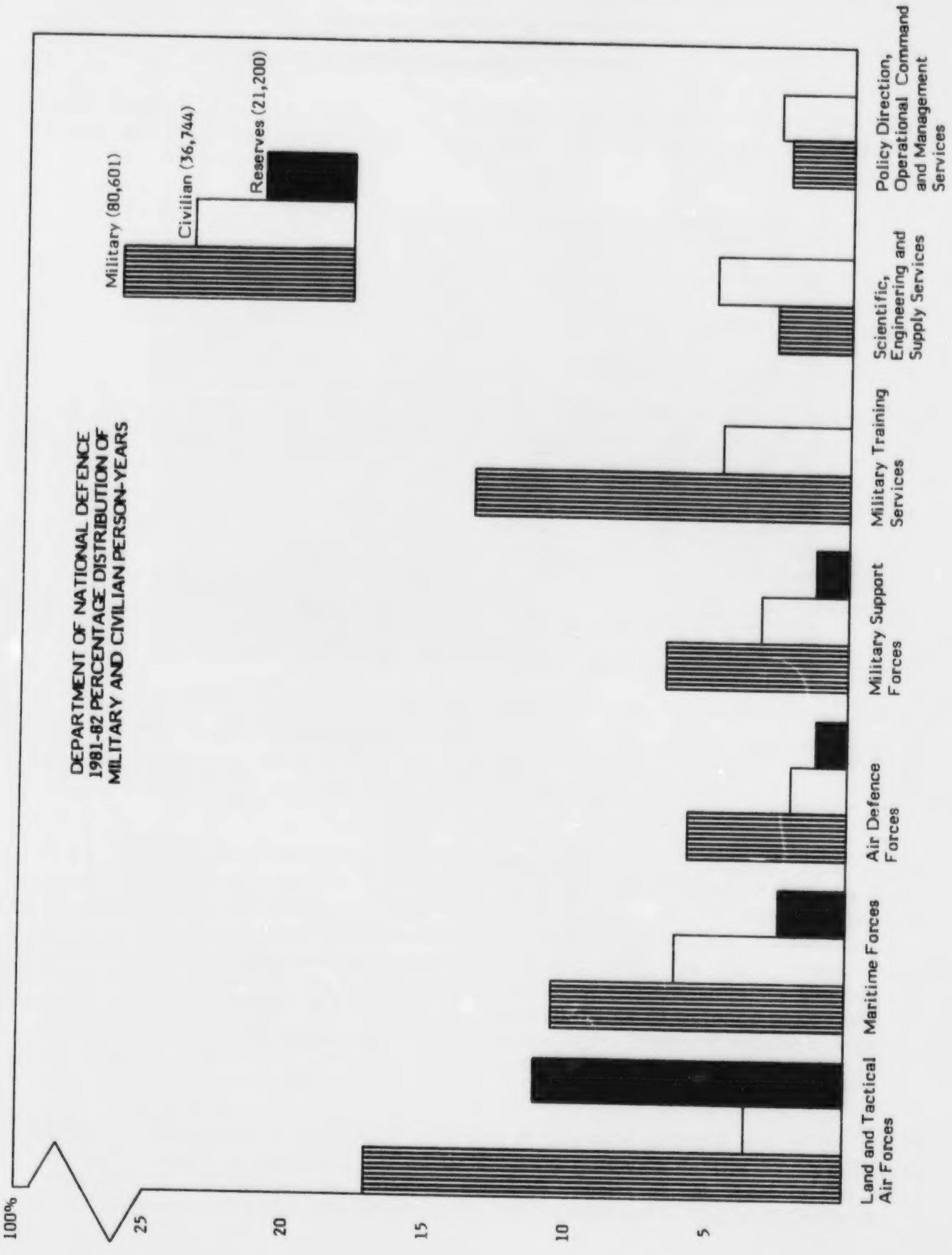


Exhibit 11.2

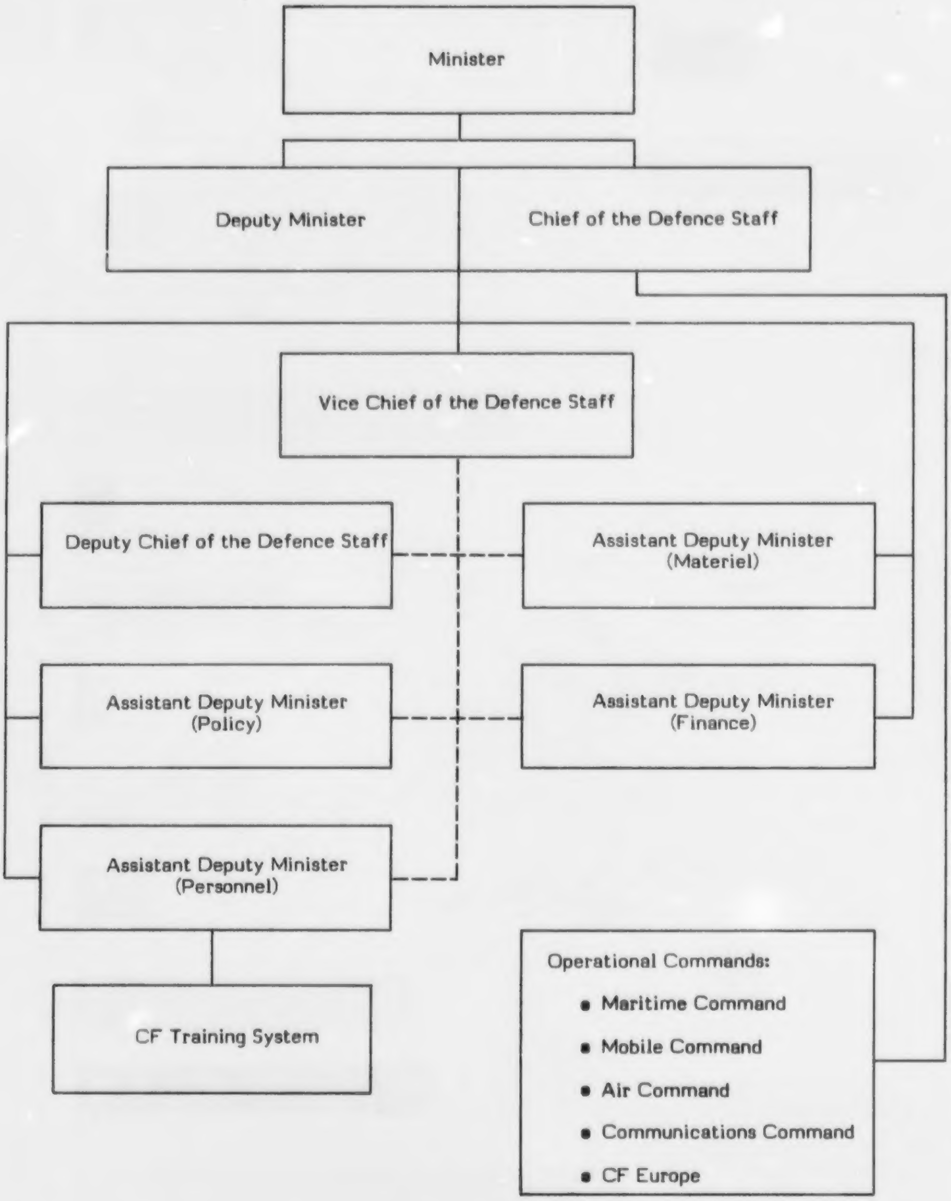


DEPARTMENT OF NATIONAL DEFENCE
1981-82 PERCENTAGE DISTRIBUTION OF
MILITARY AND CIVILIAN PERSON-YEARS

Exhibit 11.3

DEPARTMENT OF NATIONAL DEFENCE

SUMMARY ORGANIZATION CHART


Minister
Deputy Minister
Chief of the Defence Staff
Vice Chief of the Defence Staff
Deputy Chief of the Defence Staff
Assistant Deputy Minister (Materiel)
Assistant Deputy Minister (Policy)
Assistant Deputy Minister (Finance)
Assistant Deputy Minister (Personnel)
CF Training System
Operational Commands:
• Maritime Command
• Mobile Command
• Air Command
• Communications Command
• CF Europe

- defending North America in co-operation with U.S. forces;
- fulfilling such NATO commitments as may be agreed upon; and
- performing such international peacekeeping roles as we may from time to time assume.

The Defence Structure Review also resulted in the formulation of 55 Operational Tasks and 11 Infrastructure Tasks to be performed in support of these roles and other Government objectives.

HMCS ATHABASKAN and one of her Sea King helicopters carry out training manoeuvres.

11.7 The complicated program structure of DND, discussed later in this report, demands complex systems for planning and for measuring the effectiveness of programs and projects. Because it takes a long time to design and produce military equipment, and because such equipment has a long in-service life, decisions taken today influence capabilities and costs for many years. It is therefore necessary for DND to analyse its funding requirements for the next 15 years, based on the assumption that the main elements of defence policy will not change. DND does this planning well, given the uncertainty of inflation, which is estimated only in the medium term of five years.

11.8 We found that DND's operational planning process was effective in that plans could be logically linked to existing guidance -- the 55 Operational Tasks and 11 Infrastructure Tasks -- and was consistent, at least in the short term, with resources that the Government has committed to National Defence.

11.9 A new departmental policy on program evaluation provides for an appropriate program evaluation function. Interim evaluation plans were in place and program components were being developed in conjunction with developing planning elements and a new approach to costing.

11.10 The Performance Measurement System was introduced in 1980 and is continuing to evolve. Two important improvements are under way to supplement proxy measures of preparedness with outcome measures of combat capability and to develop methods of associating costs with effectiveness measures.

11.11 Because of the complexity of the program structure and the difficulties in relating costs to program objectives, there is a need for the Department to consult with the appropriate Cabinet committee to agree on planning elements, program components and displays required in Strategic Overviews and Multi-year Operational Plans to make linking of policy with expenditure planning easier.

11.12 Identifying needs for major items of equipment and establishing priorities for those needs are carried out by applying "best military judgement" to the force development process. This process would be facilitated by more precise guidance from Cabinet concerning the priorities and weights to be assigned to the Department's major commitments. Improved displays in Strategic Overviews and Multi-year Operational Plans should pave the way for providing such guidance.

11.13 Although procedures for acquiring major equipment often appear slow and cumbersome, this seems to be largely due to the complexity of the projects, including the need to reconcile the demands of central agencies and other government departments, rather than to DND's system for managing such projects. Once needs are identified and priorities established, the Department uses a state-of-the-art system for clearly defining needs, identifying and analysing options, analysing costs and availability, and defining the acquisition project to facilitate effective execution, monitoring and control of the project.

11.14 The Chief of the Defence Staff and the Deputy Minister have indicated that improved management of military and civilian personnel is a high priority. DND has taken numerous initiatives in human resource matters in recent years.

11.15 We found that the military human resource planning function operated well, determining manpower requirements from operational objectives and developing action plans to meet requirements.

11:16 The organization and processes for training individuals were well documented by DND, and training requirements were derived from operational requirements. The Department's Individual Training Study is examining areas where improvements are needed, such as the use of cost information to support decisions on training.

11.17 Although DND has policies for validation of military individual training programs to ensure that user requirements are met, little validation has actually been carried out. There is a need for the Department to enforce these policies to ensure that maximum benefits are received from training expenditures.

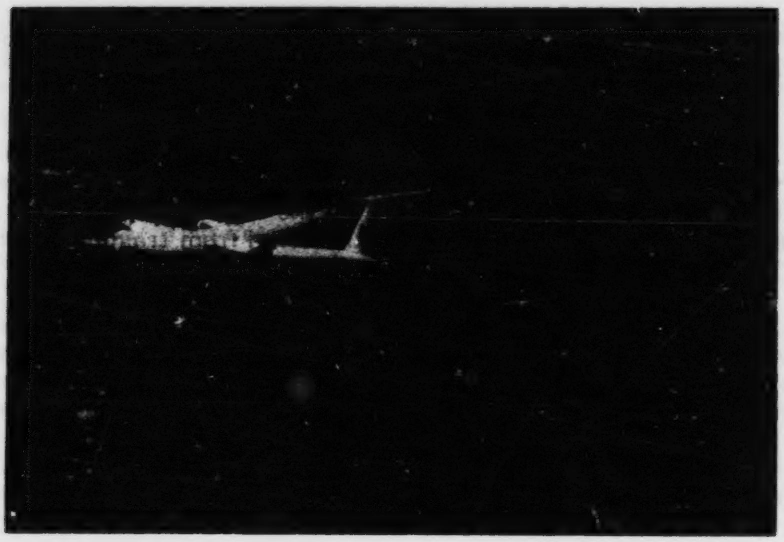
11.18 The Department spent over $50 million in 1981-82 to operate and maintain several large, complex computer systems, including logistics systems to control the use and maintenance of equipment, a large procurement and supply system to control the inventory of supplies and spare parts for all five Commands, and personnel systems to facilitate human resource management. These systems were developed and implemented during the late 1960s and early 1970s and, as DND has recognized, certain of them no longer satisfy user needs and must be redeveloped.

11.19 The Department is reorganizing the computer and information system management function to provide improved central direction and control. Plans are in place to overcome the lack of clear policy direction on matters such as the significance and roles of computers in the Department and criteria for determining security and survivability requirements. DND also needs to improve its planning for the effective use of computer resources and find ways to improve the productivity of the processes for developing and maintaining computerized systems.

DND's Environment

11.20 **Political and economic.** The size of the defence budget is determined in light of the Government's national priorities. In the case of defence, the Government tends to determine expenditure and person-year ceilings by a "guns-or-butter" trade-off analysis rather than by analysing and costing defence needs and ranking them in priority. The Department is responsible for establishing priorities within these ceilings and allocating approved funds and person-years to assigned tasks.

11.21 In peacetime, defence expenditures are used to further Government objectives in areas such as industrial, technological and regional development. Existing defence forces are used regularly in activities other than defence roles. For example, they are used in the Summer Youth Employment Program, in search and rescue and in fisheries and ice surveillance. They are also used periodically for activities such as fighting forest fires and providing security for international events like the Olympic games. The variety of tasks carried out complicates procedures for measuring effectiveness and linking program results and expenditures. This is discussed further under Planning and Effectiveness, beginning at paragraph 11.38.



Canadian Forces Buffalo airplane and Voyageur helicopter during search and rescue exercise near Summerside, P.E.I.

11.22 **Social.** Canada has been at peace for over 30 years, and it has been increasingly difficult to maintain a "military ethos" and a sense of "military community" within the Canadian Forces; senior commanders believe that these are essential to the operational readiness of the Canadian Forces.

11.23 The need to replace more than 10,000 military personnel each year because of attrition complicates human resource planning, training needs projections and recruiting. Because of the added problem of rapidly changing technology, these difficulties are most severe in areas involving engineering and computer systems.

11.24 These and other issues led DND to take the initiatives discussed under Human Resource Management, beginning at paragraph 11.70.

11.25 **Technological.** The Department is involved in procuring increasingly sophisticated military equipment such as tanks, fighter aircraft and patrol frigates. This requires co-ordinated efforts in acquiring, training and developing operators and technicians. It also involves significant efforts in research and development to maintain relevant links with the international research community and to conduct specific projects for departmental and government purposes.

11.26 The magnitude and technical content of the Department's procurement program have major implications for the success of certain government initiatives not only in research and development but also in industrial development, through offset arrangements, technology transfers, Canadian content requirements and preferred supplier designations. These factors complicate the management of major equipment projects and require that the project teams work closely with many groups, both within and outside DND.

Audit Scope

11.27 In this first cycle of comprehensive auditing in DND, we concentrated on the major management functions on which the economic, efficient and effective operation of the Department depends. Direction and control of these functions are centralized at National Defence Headquarters, but the related management systems receive data from, and supply information to, field commanders and managers. We reviewed selected aspects of five areas: planning and effectiveness; planning for major equipment acquisition; human resource management; electronic data processing (EDP) management; and information on costs.

11.28 We also followed up on previous audits carried out by the Office of the Auditor General in DND and found that the Department has responded positively to our recommendations. Our follow-up included a review of the development of the Financial Information System and of the internal audit function; these areas were the subject of comments in the Supplement to the 1975 annual Report. Our examination of the Financial Information System formed part of our review of EDP management. The review of internal audit is reported as a separate section of this report.

11.29 In the areas of planning and effectiveness, we reviewed:

- the planning system that translates program objectives into operational plans;
- information provided to Government and to management to determine the most appropriate trade-offs among competing demands for resources;
- cost analyses carried out to support long-range planning; and
- the Department's Performance Measurement System.

11.30 We examined the system for planning major equipment acquisitions and the integration of the acquisition process with the planning system and with support functions, such as supply, facilities management and personnel.

11.31 In the area of human resource management, we concentrated on the management of military human resources. We reviewed:

- human resource planning processes;
- systems for providing individual training; and
- human resource information systems.

11.32 Our review of electronic data processing management included:

- organization for EDP management;
- the planning process and strategic and operational EDP plans; and
- standards and procedures for systems development, maintenance and revision.

11.33 We reviewed the extent to which costing systems satisfied the needs of management, government and Parliament.

11.34 In internal audit, we examined the Department's progress in complying with developing central agency standards for internal audit in government departments.

11.35 After completing the above projects, we assessed the extent to which DND is ready to develop its Departmental Expenditure Plan.

Observations and Recommendations

General

11.36 Two general observations have implications for all the areas within our audit scope. These observations are set out below and referred to as required in later sections.

11.37 **Communications with government.** In 1980, the Government instituted the Policy and Expenditure Management System (PEMS) and the related system of Cabinet committees and policy sector resource envelopes to improve policy making and priority setting, in part by establishing clearer links between policy and expenditure planning. Three of the principal departmental documents designed to support PEMS are the Strategic Overview, the Multi-year Operational Plan and the Budget-year Operational Plan. The Strategic Overview provides the Department with an explicit vehicle for presenting its views on policy matters. In the section on Planning and Effectiveness in this report, we discuss the evolution of the use of these documents by the Department; subsequent sections refer to this process as "the development of improved communications under PEMS."

11.38 **Improvement activities.** The Department has a variety of management review and monitoring functions, including internal audit, evaluations, studies, task forces and various management review groups. Improvement activities are under way in almost all major management areas at any given time.

These activities are in response to internal review and monitoring processes and to outside influences, including the Task Force on Review of Unification of the Canadian Forces, Treasury Board directives and guidelines, and recommendations made by the Office of the Auditor General.

Planning and Effectiveness

11.39 The complicated program structure of the Department demands complex systems for planning and for measuring effectiveness. We have set out a summary description of the program structure as background to discussions of planning, program evaluation and performance measurement. These functions are changing in response to recent developments initiated both from within and outside DND.

11.40 **Program structure.** Canada's defence policy is closely linked with that of her allies. The strategic objective of deterring aggression is achieved by collective defence arrangements aimed at ensuring that aggression by potentially hostile forces is too expensive for them in political, social and economic terms. Canada, while protecting her own sovereignty, contributes to collective defence through various commitments to NATO, NORAD and international peacekeeping. The major objectives of the defence program are to fulfil these commitments.

11.41 Exhibit 11.4 displays a summary view of the program structure; Exhibit 11.5 provides an example to illustrate the structure in more detail. The following is an explanation of the terms used in the Exhibits:

- The 15 Program Objectives and 4 Infrastructure Objectives were derived through discussions with the Government during the Defence Structure Review in 1975. They represent high level statements of DND's objectives.

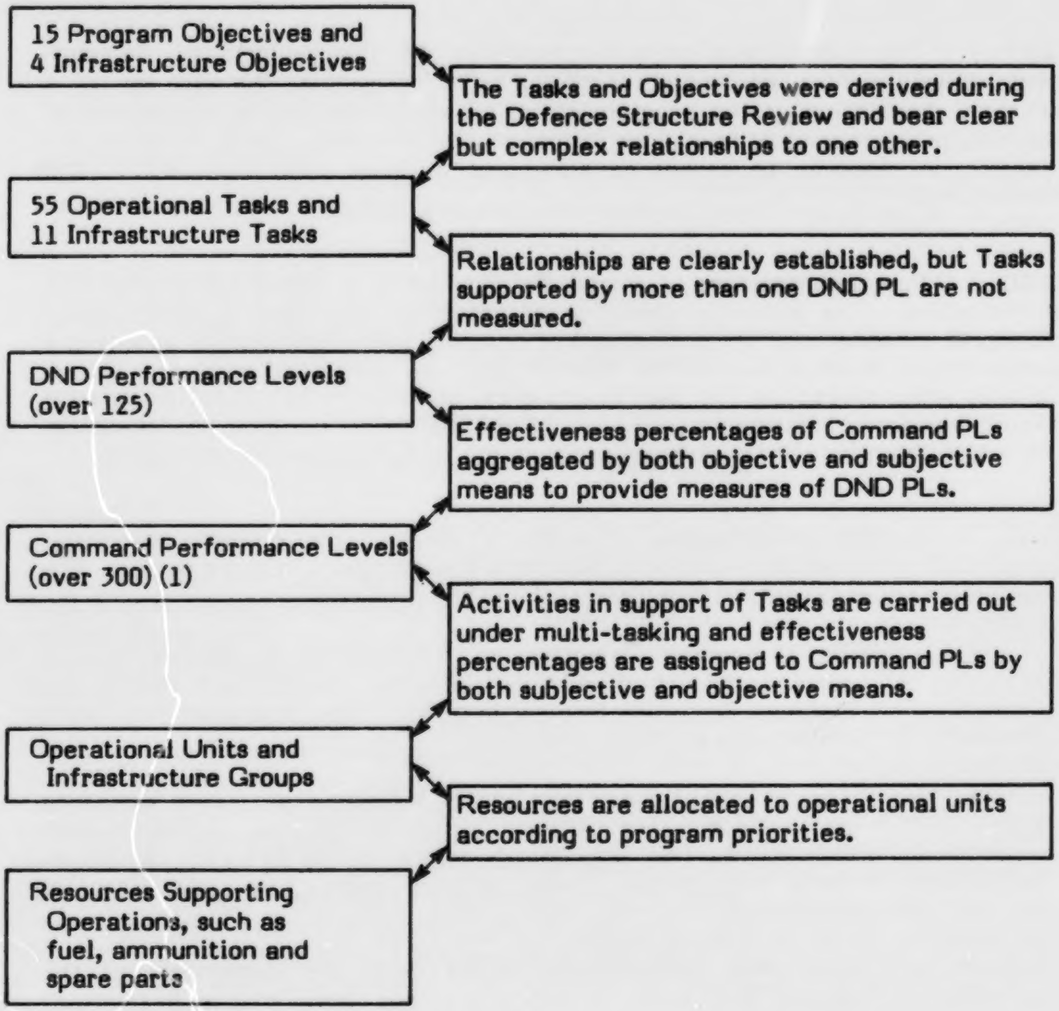
- The 55 Operational Tasks and 11 Infrastructure Tasks were also derived during the Defence Structure Review. Although each Operational Task is primarily related to one Program Objective, many Operational Tasks support more than one Program Objective.

- The DND Performance Levels (PLs) are statements of the desired level of performance in output terms; that is, in terms of what is to be achieved. Each Task is supported by one or more DND PL.

- The Command PLs are statements of the preparedness (availability and readiness) of resources such as personnel and equipment that must be used or be ready to be used to achieve a DND PL. Each DND PL is supported by one or more Command PLs

Exhibit 11.4

Summary Program Structure



15 Program Objectives and 4 Infrastructure Objectives

The Tasks and Objectives were derived during the Defence Structure Review and bear clear but complex relationships to one other.

55 Operational Tasks and 11 Infrastructure Tasks

Relationships are clearly established, but Tasks supported by more than one DND PL are not measured.

DND Performance Levels (over 125)

Effectiveness percentages of Command PLs aggregated by both objective and subjective means to provide measures of DND PLs.

Command Performance Levels (over 300) (1)

Activities in support of Tasks are carried out under multi-tasking and effectiveness percentages are assigned to Command PLs by both subjective and objective means.

Operational Units and Infrastructure Groups

Resources are allocated to operational units according to program priorities.

Resources Supporting Operations, such as fuel, ammunition and spare parts

(1) Command PLs include PLs for National Defence Headquarters Groups.

Exhibit 11.5

Example to Illustrate Program Structure

Program Objective	To prevent or contain armed attack against the NATO area (Europe, North Atlantic and North America).
Operational Task (one of six Tasks primarily associated with this Program Objective) (1)	To make an identifiable Canadian contribution to the NATO conventional deterrence in Central Europe.
DND PLs (Abbreviated)	Maintain a mechanized brigade group in Europe with certain capabilities to deploy. - Maintain three fighter squadrons in Europe at a given state of readiness. (Associated with each of these DND PLs are three Command PLs related to manning levels, equipment holding levels and training of personnel in the related operational units, the 4th Canadian Mechanised Brigade Group and the 1st Canadian Air Group). - Maintain in Europe a National Headquarters, theatre base, two fighter airfields and a hospital. (The nine related Command PLs address manning levels, equipment holdings, training of personnel, command and logistics support, communication and elecronic support, administrative support, fixed installations at airfields, and operational stocks). - Fully exploit the airfields and brigade garrison facilities in wartime.

(1) Other Operational Tasks associated with this program objective are to:

- provide distant and close protection for military and merchant convoys in transit across the North Atlantic, off the East and West coasts of North America, and in the Northern European waters;
- escort the seaborne elements of the Canadian Air Sea Transportable Combat Group to Northern European waters;
- provide a contribution to deterrence on NATO's Northern flank;
- provide sea, land and air combat forces in Canada for deployment overseas in times of crisis in support of the alliance; and
- provide a mobilization capability.

Exhibit 11.6

Illustration of Multi-tasking of Operational Units

Operational Unit	Major Tasks (abbreviated)
18 Aurora Long-range Patrol Aircraft and resources including: - Fuel, Sonobuoys,... - Personnel - Infrastructure: - two bases - training	- Surface surveillance of Canada's offshore waters in support of intelligence. - Surveillance in conjunction with other departments to detect discharge of pollutants, fishing violations, and unauthorized exploration or exploitation of the resources of the sea bed. - Conduct of missions north of 60°N to detect and identify unauthorized activities and in support of sovereign jurisdiction over remote areas. - Support for ice surveillance activities of the Department of the Environment. - Maintenance of aircraft on standby on the East and West coasts to locate trans-oceanic cable breaks. - Maintenance of aircraft on standby on the East and West coasts to reinforce Canada's maritime regulations. - Contribution to providing a Canadian presence abroad by conducting operations in foreign countries. - Support for Search and Rescue. - Conduct of sub-surface surveillance, in conjunction with U.S. forces, of shallow and deep water approaches to North America, including the Canadian Arctic and the Denmark Strait, to provide a continuing intelligence picture of potentially hostile submarine activities. - Provision of aircraft on notice to carry out operations to counter hostile actions against shipping in North American waters, to deter military threats to North America, and to protect merchant and military convoys.

and is measured by an aggregate of the effectiveness percentages of the Command PLs supporting it.

- Operational Units and Infrastructure Groups are resources (personnel, equipment and facilities) that are used for, or are ready to carry out, one or more Tasks.

- Resources Supporting Operations include two types: those that enable a certain level of activity to be carried out, and those required to maintain equipment and facilities.

11.42 The following concepts are important to understanding the program structure:

- Multi-tasking refers to the fact that most operational units are assigned more than one task. Exhibit 11.6 displays the major tasks of the Aurora Long Range Patrol Aircraft.

- In some cases "subjective measurement by expert raters" is required to supplement objective data to estimate Command PL effectiveness percentages, and these must be aggregated using subjective weighting factors to estimate DND PL effectiveness percentages. Thus, DND measures are products of both "best professional judgement" and quantitative data. The measures are further complicated in cases where resources from different operational units need to be combined to achieve a given DND PL.

11.43 **Planning.** As there are no readily apparent alternatives to the national strategy of contributing to collective defence, the key Government decisions affecting the Department are the determinations of total defence expenditures, commitments for the Canadian Forces, and the desired level of effectiveness for each commitment. In theory, these levels of effectiveness determine the levels of effort required by DND and the related resource requirements, and they should, therefore, reflect the constraint of authorized expenditures. However, the Department elicits, and the Government provides, little guidance on desired levels of effectiveness for each commitment, and these levels are implicitly determined by senior managers and commanders through the processes of developing the force structure and related equipment requirements and operational planning.

The Leopard C-1 main battle tank is a key element of armoured forces for the defence of Western Europe.

11.44 Because of both the length of time required to design and produce military equipment and the long in-service life of the equipment, decisions made today influence the capabilities and costs of the Canadian Forces for many years. Therefore, it is necessary for the Department to analyse its funding requirements for the next 15 years, based on the assumption that the main elements of defence policy will not change. DND does this well, given the uncertainty of inflation, which is estimated only in the medium term of five years.

11.45 Operational planning, in general terms, involves establishing activity levels for operational units that will achieve the desired levels of effectiveness within the constraints of available resources. Resources are allocated to permit achievement of the agreed activity levels, and budgets are prepared accordingly.

11.46 We found the operational planning system to be effective in that:

- plans develop logically from existing government guidance, namely the 55 Operational and 11 Infrastructure Tasks; and
- plans are consistent, at least in the short term, with resources that the government has committed to DND.

11.47 **Performance measurement.** The Department introduced a new Performance Measurement System in 1980. The related procedures manual states that performance reports will improve the management process by providing data that will, among other things:

- measure achievements against assigned Tasks;
- highlight deficiencies in operational and support capabilities; and
- assist decision making as an integral part of the management process.

11.48 The Performance Measurement System yields effectiveness percentages of Command Performance Levels which are aggregated to provide effectiveness percentages of DND Performance Levels. For operational units, the Performance Levels currently yield a measure called 'preparedness', which is a combination of availability of personnel and equipment and their readiness in terms of training and state of repair. Preparedness is intended to indicate the ability of a unit to perform its assigned task within the limits of designed capability; as such it is an output measure. The Department is working to establish "results" measures which, in addition to preparedness, would also indicate the extent to which the designed capability is appropriate in light of comparisons either to allied forces or potentially hostile forces. These results measures would be more realistic indicators of the achievements of the Department.

11.49 Tasks supported by more than one DND Performance Level cannot be usefully measured in terms of results, except in those cases where the performances required by the relevant DND PLs contribute to a common objective. For example, the Task described in Exhibit 11.5 is hard to measure because of the difficulty of combining the outputs of the individual operational units into an overall measure of task achievement.

11.50 At present, the Performance Measurement System does not incorporate information on costs. However, the Department is attempting to link costs to PL effectiveness percentages. These attempts are complicated by multitasking.

11.51 **PEMS and program evaluation.** The introduction of PEMS in 1980 provided key vehicles for the exchange of information between Government and the Department. These vehicles facilitate the exercise of informed political judgement by the Government and, combined with feedback from the Government, they provide a clear framework for planning, executing and reporting departmental activities.

11.52 DND established its Program Evaluation Branch in 1972. In 1981, the Department promulgated a new policy which adopted the concept of program evaluation as described in Treasury Board's Guide on the Program Evaluation Function. Previously, evaluations had been carried out under ad hoc directives from the Deputy Minister, the Chief of the Defence Staff and Vice Chief of the Defence Staff. The evaluations were concentrated mainly on aspects of the Infrastructure Tasks. Evaluation assessments now under way, and plans for future evaluation assessments, involve primarily the Operational Tasks.

11.53 PEMS and program evaluation requirements have made it necessary for DND to consider new ways of viewing its program structure. For purposes of displaying multi-year resource proposals in the Multi-year Operational Plan, the defence program will be broken down into "planning elements". These will be based on Program Objectives, as modified by decisions of Cabinet or Treasury Board, and are designed to better relate the need for resources to actual and projected program results. This requirement derives from the fundamental purpose of PEMS, which is to link policy and expenditure planning. However, full implementation by DND is difficult for several reasons:

- Results are achieved through multi-tasking of operational units, so that complicated allocations of cost would be required to relate resources to program results.
- Existing program objectives do not lend themselves to measurement in results terms. Some Tasks are also not measurable because they are supported by DND PLs that achieve independent facets of the Task.
- The current state of the art in the Department is that outputs are measured but results are not. The distinction is important, because reporting output measures rather than results measures would likely be misleading to the layman -- output measures indicate the preparedness of designed capability, whereas results measures would reflect comparisons to either allied forces or potentially hostile forces.

11.54 For purposes of program evaluation, the defence program is to be broken down into "program components" to focus on program objectives and related measures of results which are in turn to be related to activities and resources. The difficulties are essentially the same as for planning elements.

11.55 The Department has established a steering committee with representation from the Program, Evaluation, and Financial Administration Branches to co-ordinate the development of planning elements and program components and to consider the financial management implications, including the reform of the Estimates. The results of this work are expected to form the basis of communications with the Government for many years.

11.56 In our opinion, there are a number of specific matters that should be considered by DND in consultation with the appropriate Cabinet committee. These are discussed below.

11.57 **Strategic Overview.** The Department's Strategic Overview, filed in March 1981, provided an assessment of funding requirements for the Defence Services Program over the next 15 years. Although such a long-term assessment is not required according to Treasury Board's Guide to the PEMS, it may be desirable to continue to provide such an assessment because it is consistent with the nature of the program and with the approach to defence spending.

11.58 The March 1981 Strategic Overview did not review the objectives of the Department as the Treasury Board Guide suggests it should. This is consistent with the underlying assumption that the roles, objectives and tasks of DND will remain unchanged for the foreseeable future under the national strategy of contributing to collective defence. It may be desirable to discuss with the appropriate Cabinet committee to what extent and with what frequency the Department should review this assumption in the Strategic Overview.

11.59 The March 1981 Strategic Overview also did not review alternatives for pursuing defence program objectives and tasks, as the Treasury Board Guide suggests. Such a review would normally indicate alternative expenditure patterns associated with alternative levels of effort and/or with different formulations of objectives or tasks. A discussion of the extent to which such a review should be provided might address the following issues:

- The purpose of such a review would be to assess whether changes in emphasis on individual tasks by transferring effort, and hence resources, among them would achieve greater total effectiveness within the established envelope. Proposals to change the envelope itself would be covered by the assessment of long-term funding requirements.
- The Government's interest in the impact of alternatives, both on expenditure patterns within the envelope and on other Government objectives in areas such as industrial, technological and regional development, might be addressed.
- The extent to which information on changes in levels of effectiveness would be more useful if presented in terms of results rather than in terms of outputs. The availability of such information will depend on the Department developing results measures.

11.60 **Multi-year Operational Plan.** An important purpose of the Multi-year Operational Plan is to display the results anticipated in the planning period and to relate them to forecast resource inputs. Because of multi-tasking, these relationships can only be estimated in many cases by allocating the full costs or the variable costs of operating units to their associated tasks. This is an imperfect, subjective process, and any decisions that might be considered on the basis of such displays would normally have to be supported by further analyses.

11.61 These displays are subject to further uncertainty because of the ad hoc nature of certain tasks. When events call for activities in support of these tasks, resources originally allocated to other tasks are necessarily transferred, so that the forecast results in these other tasks may not be achieved.

11.62 Discussion of these aspects of the Multi-year Operational Plan with the appropriate Cabinet committee would help ministers to appreciate more fully the implications of multi-tasking and ad hoc tasking.

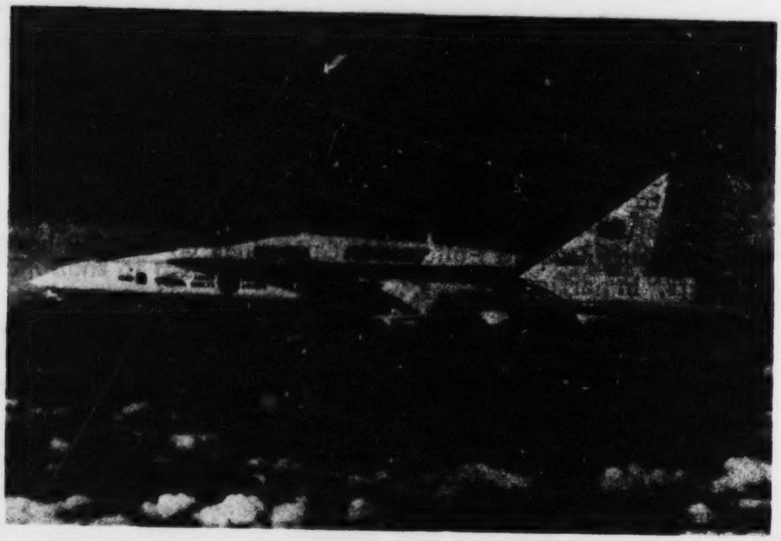
11.63 The Department, in consultation with the appropriate Cabinet committee, should determine:

- **appropriate planning elements for use in PEMS documents and program components for purposes of program evaluation;**
- **appropriate displays in the Strategic Overview, including a review of alternative strategies for pursuing defence program objectives and associated cost implications; and**
- **the appropriate display of costs in relation to planning elements in the Multi-year Operational Plan and the Departmental Expenditure Plan.**

The Department concurs with the recommendation as being reasonable and potentially useful to DND.

Planning for Major Equipment Acquisitions

11.64 To assess planning for major equipment acquisitions, we reviewed the formal documented management systems and examined their use in two important cases: the New Fighter Aircraft and the Canadian Patrol Frigate. We also reviewed aspects of the Leopard Tank, 1 1/4 Ton Truck and Long Range Patrol Aircraft acquisitions in connection with other audit projects.



The multi-role CF-18 Hornet, recently purchased as Canada's front line fighter for both North American and European air operations.

11.65 Large projects such as these have significant long-term implications for the Department:

- They establish the limits of flexibility of key capability requirements because, once acquired, the equipment can only be modified within those limits.
- They determine long-term requirements for personnel, supplies and spare parts, and operating and maintenance facilities.

11.66 The early phases of a project, during which the Department becomes committed to acquiring specific items, are of critical importance. We concentrated our review on these phases, which can be described as follows:

- identification and definition of a need, in terms of departmental objectives;
- identification and analysis of options, in light of both departmental and other government objectives, to determine the general type of equipment to be acquired;
- analysis of costs and availability, generally by requesting proposals from potential contractors; and

- definition of the project in terms that will permit effective execution, monitoring and control of the project.

11.67 In anticipation of the large equipment acquisitions that began in the mid-1970s, the Department designed and implemented the Defence Program Management System to initiate, plan and control all capital projects. In our opinion, DND has a state-of-the-art system; its fundamental principles were incorporated into Treasury Board's Policy and Guidelines on the Management of Major Crown Projects. In particular:

- needs are broadly identified in terms of departmental objectives;
- decisions are made by appropriate individuals and committees, generally on the basis of full information and appropriate criteria;
- decisions are well documented;
- given the complex environment and requirements, timely decisions are taken;
- responsibilities for all important aspects of project development and execution are clearly defined and communicated;
- projects are adequately supported by information systems; and
- projects are carefully monitored.

11.68 Senior management, through DND's Program Control Board, generally establishes equipment acquisition needs and priorities by assessing projects advocated by those involved in the force development process and by the functional Commands against the Department's objectives and other outputs of the Defence Structure Review. We believe this process will be facilitated by the improved communications under PEMS that should provide clearer criteria for establishing both needs and priorities.

11.69 In light of our assessment of the Defence Program Management System, a brief discussion is in order about the long period of time sometimes required between the needs identification phase and the delivery of the equipment. An obvious factor is the inherent complexity of a major equipment project; for example, the New Fighter Aircraft must be able to carry out three missions with quite different requirements. More importantly, the Government takes considerable interest in these large projects because of the opportunities to achieve objectives beyond those of DND, such as industrial and regional development. This requires the involvement of other government departments and central agencies through inter-departmental committees which must resolve important trade-offs among opportunities to achieve different objectives. Departmental management systems cannot be designed to hasten this process;

they can only be designed to provide required information and to react to decisions when they are made.

Human Resource Management

11.70 The human resource management function was perhaps more severely disrupted than the other major management systems by the reorganization of the Canadian Forces and the Department. Over time, the human resource management functions of the Navy, Army and Air Force and of the civilian Department were amalgamated to form the ADM (Personnel) Group in National Defence Headquarters. The ADM (Policy) Group carries out establishment planning and review. Now that the Department has its capital program in place, improvement efforts in human resource management are a high priority:

- The Chief of the Defence Staff has announced that military personnel is his first priority.
- The Deputy Minister has indicated that improved management of civilian personnel is one of his priorities.
- DND has undertaken numerous initiatives in human resource matters in recent years.
- The November 1981 update of the Multi-year Operational Plan lists an evaluation, to begin in 1982-83, of the requirement for and development and provision of military personnel.

11.71 The need for such efforts resulted from various influences in addition to reorganization:

- The rapid reduction in the size of the forces between 1962 and 1975 from over 120,000 to about 78,000 was carried out using various policies and practices, such as authorizing early releases more or less on request, that were difficult to stop when the Government decided to reverse the trend in 1975.
- Since the mid 1960s there has been a focus on peacetime activities at the expense of activities designed to enhance preparedness for war.
- There were cutbacks of manpower devoted to human resource management.
- There were, and still are, problems with manning shortfalls in some trades and classifications. Keen competition exists for highly skilled managers, engineers and other specialists.
- The Government introduced new policies on bilingualism and on human rights, particularly opportunities for women.

- The increasingly common practice of having two-income families has made it more difficult for Canadian Forces members to accept the family disruption associated with postings.

- There will be a reduction in the size of the traditional Canadian Forces recruiting pool -- the population ranging in age from 17 to 24.

11.72 The development of improved communications under PEMS ought to indirectly facilitate the management of human resources by clarifying policy objectives and priorities, thereby permitting the 55 Operational and 11 Infrastructure Tasks and related activities to be better defined, planned and ranked in priority. This in turn would have an effect on job requirements and trade and classification specifications and, through them, on requirements for training of and information on human resources. For example, a mobilization policy could have a significant impact on both training and information system requirements if it called for a plan to contribute forces to a lengthy, conventional war.

11.73 Other internal initiatives also have broad implications for the management of human resources. The Department expects that the work of its Study Group on Personnel Management Policies and of the Military Personnel Policy Board will:

- produce a formal personnel management concept and comprehensive personnel policies for the 1980s;

- increase and improve the use of cost-benefit analysis in support of human resource decision making, evaluation, study and research; and

- clarify responsibilities for matters such as monitoring and evaluating human resource policies and procedures, planning organizational development and enhancing communications related to human resources.

11.74 **Human resource planning.** To ensure that the right person is in the right place at the right time is a complex task. Generally high attrition, which is difficult to forecast or control, has a significant impact on requirements, while the combination of the person-year ceiling imposed by government and the establishment control practices followed by the Department leave little room for flexibility. Nevertheless, we found that the military human resource planning function operated well. The Department:

- determines manpower requirements from operational objectives and workplans;

- maintains detailed human resource inventories;

- takes into account relevant factors such as demographics and attrition, gender and language requirements, performance requirements and career management plans;
- integrates human resource planning with other functions such as departmental planning, finance and training; and
- develops action plans to meet requirements.

11.75 **Individual training.** Training at both individual and collective levels is a pervasive and resource-consuming activity of the Canadian Forces in peacetime. The Canadian Forces Training System controls and delivers common recruit training, training of trades and classifications which are common to two or more environments, such as supply technician, cook, administrative clerk, radio operator, land ordnance engineering officer and logistics officer, and training for most air trades. Training of individuals for other trades and classifications unique to an environment (sea, land and air) is carried out by that environment.

11.76 Several important factors influence the volume of individual training:

- Heavy operational requirements and generally high attrition have led to a high volume of training requirements and to an increased requirement for instructors.
- The combined effects of attrition and of rotation and posting of personnel aggravate the chain reaction created when a vacant position is staffed. Many of the staffing actions in the chain require individual training of the new incumbent.
- During major equipment replacement programs, training is required on both the old and the new equipment.

11.77 The organization and processes for training individuals were well documented by the Department. Although the system has a number of good features, the Department found it desirable to establish the Individual Training Study in July 1980 to examine all aspects of the system. We found that the strengths of the system included:

- dedicated and resourceful managers, commanders and instructors;
- training requirements derived from operational requirements and an individual performance appraisal system used to identify candidates for advanced training; and
- courses developed by qualified instructors and specialists working in collaboration with industry specialists in certain cases related to equipment acquisitions.

11.78 The Individual Training Study and other studies are examining several areas where DND has identified that improvement may be needed. For example:

- The organization for individual training does not provide central expertise in the management and delivery of training programs.
- There is a requirement for increased emphasis on environmental (sea, land and air) training.
- It may be feasible to reduce demands on the training system by taking a more graduated approach to skill progression; that is, by deferring training in an individual's career where possible.
- The costs of training are not adequately captured and analysed to support decision making.
- There is potential to improve the efficiency of current training methods.

11.79 Other improvement efforts, such as continuing occupational analysis of jobs which, among other things, assists in defining training needs, will result in greater accuracy in identifying training requirements.

11.80 Existing departmental policy requires users of the individual training system - that is, organizations in which trained individuals are employed - to validate training that has been conducted to ensure that user requirements are being met. Although validation procedures are well documented, we found that little validation was actually carried out.

11.81 **The Department should enforce existing policy and procedures on validation of individual training courses to ensure that maximum benefits are received for expenditures on training.**

> The Department concurs with the recommendation. The need for an effective and formal validation process is acknowledged and steps are being taken to implement it. Partially in response to this need, a separate classification (Training Development Officer) has been established.

11.82 **Human resource information systems.** This section should be read in conjunction with the later section on EDP Management, which discusses broader issues with implications for human resource information systems.

11.83 In peacetime, two key systems, the Personnel Management Information System and the Automated Establishment System, maintain information on individuals and establishment information by rank and by trade or classification. These systems are integrated monthly to produce management reports for use by those responsible for career management, field Commanders and others. The Department is aware of weaknesses in these systems and of user information needs that are not currently satisfied. We examined the improvement efforts in progress. These efforts involve developing three additional systems to provide direct access to the human resource information bank by career managers, to provide, in an emergency, a capability to account for the whereabouts and status of human resources at the Command Headquarters level, and to provide human resource information and data processing capability at the base level.

11.84 We found reasonable participation by users in designing new systems, and in establishing both the relevant information required and standards for the accuracy, completeness and timeliness of the information. Also, the confidential nature of the data involved was appropriately recognized, and user and operator instructions and procedures were documented and communicated.

11.85 However, two of the systems under development rely in important ways on the Personnel Management Information System. The Department has acknowledged weaknesses in this system in the areas of relevance, timeliness and accuracy of information, especially in terms of the requirements of the two systems that will rely upon it. These weaknesses can be traced to the design of the Personnel Management Information System, and the new systems relying on it are unlikely to be effective. Having recognized this, the Department has initiated a project to update the Personnel Management Information System and has postponed completion of one of the new systems. The other new system is being implemented because the Department believes its advantages justify the costs.

Electronic Data Processing Management

11.86 Since the Department uses the acronym ADP, meaning Automated Data Processing, rather than EDP, we have done the same in this section.

11.87 The day-to-day peacetime activities of the Department are supported by several large ADP-based systems that cost over $50 million a year to maintain and operate. These systems include:

- the financial information system to record, control and report departmental expenditures;
- the military pay systems;
- the human resource information systems discussed previously;
- the procurement and supply system which controls a large inventory of supplies and spare parts to ensure that the right item is in the right place at the right time;

- information systems for each operating environment (sea, land and air), to manage the use and maintenance of equipment;
- the Defence Services Program Information System used largely in departmental planning and programming;
- the Economic Model used in planning, programming and budgeting to estimate the effects of inflation on defence expenditures; and
- command and control information systems to enable Commanders to control the deployment of their human and materiel resources; for these, ADP support systems are being developed.

Personnel operating automated data processing equipment at National Defence Headquarters.

11.88 We reviewed the management of ADP support for such administrative and control systems which in turn support departmental operations. Because we did not review tactical ADP systems, our scope was limited to matters related to managing ADP systems as defined by Treasury Board and as contemplated by the Department's Integrated ADP System planning document.

11.89 The major ADP systems were developed and implemented during the late 1960s and early 1970s and represented significant achievements in their time. However, certain systems now need to be redeveloped, largely because of their age and the increasing internal and external demands for more and improved information for management purposes. As well, some new systems are required. Rather than reviewing specific applications in detail, we reviewed the Department's overall ADP management policies, standards, practices and procedures and its initiatives for improving its systems. We took this approach because the most pressing need of ADP management in DND is to develop the capability to implement a new generation of systems and technology.

11.90 The Department has recognized the need and is taking, or has taken, important steps to see that it is met. For example, DND has:

- established an ADM-level ADP Policy Committee and ADP Steering and Screening Committees;
- developed the Integrated ADP System, a strategic planning document that provides a conceptual framework for future ADP development;
- produced various ADP planning documents;
- displayed long-range ADP plans in the Department's overall Long-term Plan, which shows planned capital expenditures;
- begun to implement a phased reorganization of the ADP management function;
- undertaken a study of ADP personnel requirements; and
- approved an ADP system development life cycle methodology.

11.91 An important initiative is the reorganization, intended to provide a single authority, the ADP Manager, for ADP services in the Department. In the following paragraphs we discuss the reorganization and then describe issues facing the ADP Manager in the areas of ADP policy, plans, efficiency and staffing, and evaluation.

11.92 **Reorganization.** At the time of writing, responsibilities for ADP management were as follows:

- ADM (Finance), through the ADP Manager, provided ADP policies and plans, systems analysis and consulting services.
- ADM (Materiel) provided application development services and hardware engineering support.
- Canadian Forces Communications Command provided application maintenance and systems software support and operated the major data centres.

This structure resulted in fragmentation of responsibility for ADP services. Jurisdictional matters had to be referred to a high level for resolution. In addition, the structure was generally unresponsive to user requirements.

11.93 In the first phase of the reorganization, the Department plans to bring all these functions under the control of ADM (Finance), through the ADP Manager, except for the hardware engineering support which will remain under ADM (Materiel).

11.94 A Memorandum of Understanding details the responsibilities of the hardware engineering support to the ADP Manager. This exception was provided because the engineers are involved in other responsibilities, including support to users of tactical ADP. The exception could perpetuate the requirement to refer jurisdictional matters to a high level and has the disadvantage that key personnel required to implement a new generation of technology would not be together as a team.

11.95 **The ADP Policy Committee should monitor activities covered by the Memorandum of Understanding between the ADP Manager and the hardware engineering support group to ensure that full benefits of the reorganization are realized.**

> The Department will take action accordingly. The recommendation will be implemented within the terms of the Memorandum of Understanding.

11.96 The planned second phase of the reorganization involves establishing five functional user-controlled computer centres. Each centre will develop and maintain its own applications and operate its own computers. The ADP Manager will continue with the policy, planning and other central roles, and the hardware engineer support group will continue under ADM (Materiel).

11.97 The degree of success ultimately achieved through the reorganization will depend greatly on the success the Department has in dealing with the issues of ADP policy, planning, efficiency and staffing, and evaluation. Improvements in these areas, as discussed below, are required before the second phase of the reorganization takes place in order to ensure that the ADP Manager has the capability to provide effective functional direction to ADP users.

11.98 **ADP policy.** The management of ADP resources and the development of ADP applications should be responsive to departmental program plans which in turn reflect departmental objectives. Of specific concern to the Department is the need to develop a clear statement on the roles to be played by ADP in times of crisis or war. These roles provide the basis for developing ADP policy, setting priorities, analysing risks and contingencies, and developing security and survivability requirements and contingency plans. Improved communications under PEMS should facilitate the development of departmental direction to ADP management by helping to establish departmental priorities. However, the Department cannot wait for these improvements to take place. Notwithstanding DND's existing policy directive, there is disagreement among managers and commanders about the roles that ADP should play in DND, especially during times of crisis.

11.99 To ensure that adequate attention is given to development and maintenance of ADP support systems, senior management should develop a statement that recognizes the potential contribution of such systems to the efficient and effective administration and operations of the Department. The statement should give special emphasis to the unique role of DND in times of war and crisis.

> The Department responds that National Defence Headquarters Policy Directive P25/77 (DND Automatic Data Processing Policy) clearly describes the function and application of ADP in support of departmental commitments in time of war and national emergency, but agrees that the directive could be improved by incorporating the above recommendation.

11.100 The ADP Manager should prepare policies for approval by the ADP Policy Committee on:

- **criteria for establishing priorities for ADP development, maintenance and processing;**
- **criteria for determining security and survivability requirements; and**
- **requirements for risk analysis and contingency planning.**

> DND agrees with the recommendation regarding priority, security and survivability criteria and risk analysis and contingency planning requirements. These deficiencies had been recognized by the Department previously and are in the process of being corrected.

11.101 **ADP plans.** The Department has a variety of ADP plans, such as the Integrated ADP System strategic planning document. However, it does not have a comprehensive long-term ADP plan, setting out not only the conceptual framework for future ADP development but also long-term hardware, software, communications and personnel requirements and plans for meeting these requirements. Nor does DND have a comprehensive short-term plan, covering hardware, applications, system software, communications and personnel. Such plans, including plans for appropriate monitoring and feedback, are necessary to ensure effective utilization of ADP resources in future years.

11.102 The Department should expand the Integrated ADP System strategic planning document to include long-term plans for hardware, software, communications and personnel and should develop a short-term plan that is integrated with the long-term plan and with the operational priorities of the Department.

> The Department responds that the new DND ADP Three-year Work Plan is designed to meet the short-term requirement. The Long-Term ADP Plan Schedule (LAPS) now forecasts systems, communications and personnel requirements for each project out to twenty years. Because of the changing technology and changing user requirements, the Department is unable to be more specific beyond the period covered by the work plan.

11.103 Staffing and efficiency of systems development. To make significant advances in ADP capabilities in a relatively short time, highly skilled ADP professionals are required. The Department reports that there is a shortage of ADP staff in DND to carry on present activities and to meet planned development activities. Further, many key ADP positions are occupied by military personnel who rotate through, often from non-ADP positions, and who do not have extensive ADP experience. This creates inefficiency in developing and maintaining systems.

11.104 In the short term, hiring and contracting the required skills and experience and taking measures to improve productivity could alleviate the shortage. Alternatives for addressing the shortage in the longer term include:

- allocating more of the ADP positions to civilians and developing strategies to fill these positions; or
- establishing an ADP specialist classification for military officers and introducing appropriate training.

11.105 Various means of improving development and maintenance productivity exist, including:

- ensuring adequate training on and implementation of the Department's recently adopted system development life cycle methodology;
- developing systems in modules, the most important modules first; and
- controlling the number of enhancements to systems that the Department plans to replace, in order to free as many resources as possible for developing new systems.

11.106 The Department should overcome the shortage of ADP staff in the short term by hiring and/or contracting the required skills and experience and by

researching and applying methods of improving development and maintenance productivity. A longer-term solution should be developed in conjunction with other work in process within the Department on specialist classifications.

> The Department concurs with the recommendation. DND has attempted to hire or contract computer-trained personnel but has met with only limited success due to the intense competition for ADP staff within other government departments and private industry. The Department intends to continue using some military personnel in ADP positions to ensure that expertise from the functional activities being supported is available and, also, to provide some assistance in filling vacant ADP positions. In the long term, the solution to the problem will only be addressed through greater availability of computer-trained personnel and through a concerted effort by all government departments to create circumstances which will attract ADP staff to the type of employment offered. For its part, DND is increasing the number of computer science courses at the military colleges and is participating in inter-departmental forums which are attempting to address this problem.

11.107 **Evaluation.** The ADP Manager is responsible for evaluating existing ADP application systems to assess their continuing efficiency and effectiveness in meeting user needs. Because of the extent of redevelopment of ADP systems in process and under consideration, evaluations of in-service applications are not being carried out at this time. However, as applications are implemented, the evaluation function will play an increasingly important role in assuring the long-term effective management of ADP resources.

Information on Costs

11.108 The Department relies on various analytical techniques, computer-based models and other specifically designed systems to provide costing services such as:

- support to budgeting and forecasting;
- cost recovery calculations;
- providing and reviewing cost information in submissions to the Program Control Board and Treasury Board and ad hoc inquiries for cost analyses;
- life cycle costing for capital projects; and
- costing of Activities for display in the Public Accounts of Canada by allocating the Department's annual expenditures to defined activities.

11.109 We considered whether there was a need to provide additional information on costs, either by existing methods or by new systems, to improve control over operations and expenditures. We found existing control systems to be satisfactory in terms of the purposes for which they have been designed. Personnel, operating and maintenance costs are controlled centrally by allocating resources, such as personnel, equipment, spare parts, supplies and facilities, to units and monitoring the use and consumption of those resources by various means, such as independent reviews of manpower establishments and logistics information systems. Certain costs, such as base maintenance and overtime expenditures, are controlled by comparing budget to actual on a monthly basis. Capital costs are controlled through the Defence Program Management System.

11.110 Two existing needs for information on costs currently not satisfied are discussed in earlier sections of this report. Under Planning and Effectiveness, we discussed the nature of information on costs that could be provided to government to facilitate decision making under the Policy and Expenditure Management System and, under Human Resource Management, we described the Department's initiative to increase and improve the use of cost-benefit analysis in support of management decisions in this area.

Internal Audit

11.111 The Department has been responding in recent years to various studies of its internal audit function, to recommendations of this Office and to standards being developed by the Office of the Comptroller General. The Department has issued new administrative orders for central and base internal auditors and has reorganized and strengthened internal audit. An audit manual, standard operating procedures and a manual of audit programs have been issued, and DND has instituted improved training programs. In addition, various staff papers on the audit universe, audit priorities and planning, and the role and organization of internal audit have been developed in the Department.

11.112 DND has issued a policy on program evaluation and has established the Audit and Program Evaluation Committee. The Committee, assisted by the internal auditors, is currently developing a revised policy on internal audit. Indications are that the policy, combined with other improvement efforts which are ongoing, will result in an effective internal audit function that will:

- have a comprehensive audit mandate;
- provide functional direction to management review groups with audit functions;
- catalogue and monitor plans and activities of management review groups; and
- rely on and use the resources of management review groups where it would be appropriate and efficient to do so.

Information for Parliament

11.113 At the time of writing, the Department had not yet started to design a Departmental Expenditure Plan to replace the current Estimates. It is expected that most of the information in this Plan will be derived from the Multi-year Operational Plan which, as we have discussed previously, is still under development.

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

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12

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

SYNOPSIS

Health Protection Branch

12.1 In carrying out its role in controlling health hazards through its five scientific directorates, this Branch is dependent for its success on a number of factors, including the resources available to it, its operating procedures and its working relationship with other regulatory agencies. We found that there were limited management information systems to assist Branch management in reviewing and deciding on the levels of coverage provided by its scientific directorates. These levels of coverage do vary. For example, in the drugs area, close to 100 per cent of drug manufacturers are inspected annually. On the other hand, in the food area, the Branch inspects annually about 2,000 of the approximately 4,500 major food processing establishments; although other federal, provincial and municipal health authorities are involved in inspection activities, there is a need to improve co-ordination of work and exchange of information.

12.2 Air handling systems in several of the Branch's laboratories are not adequate for work with hazardous substances and are creating potentially hazardous work environments. The lack of a complete understanding between the Branch and the Department of Public Works regarding respective responsibilities for the maintenance of Branch laboratories, and inadequate safety practices in several of the facilities are also contributing factors. The Department is giving highest priority to taking positive action in this regard. Additional funds of $48.5 million were approved in principle by Treasury Board in March 1982 to upgrade existing facilities. The upgrading will be phased in over a ten-year period.

Medical Services Branch

12.3 This Branch provides health services to certain client populations, the most significant being Canadian Indians and Inuit. The senior personnel at headquarters and in the regions are generally experienced officers who have good knowledge of local operations and are actively involved in them.

12.4 Although a number of initiatives are under way, the Branch has not yet interpreted the federal government's 1979 Indian Health Policy and defined program delivery standards for health care services to Indians and Inuit. Moreover, there is limited co-ordination of activities with the Department of Indian Affairs and Northern Development for the delivery of Indian and Inuit programs.

12.5 The withdrawal of guidelines for the provision of non-insured health services by the federal government and the introduction of the Indian Health

Policy had the effect of extending these services to all status Indians and Inuit and, in some instances, to certain non-status Indians, regardless of place of residence or ability to pay. This increase in coverage has contributed to a rapid escalation in costs, from $36 million in 1979-80 to an estimated $78 million in 1982-83. This situation, together with a high staff turnover at field offices and limited central direction regarding non-insured health services, has resulted in a diversity in the level of services provided.

12.6 The absence of documented guidelines, inaccurate cost information and the relatively low priority given to recoveries of medical services provided by the Branch and insured under provincial and territorial medical plans are resulting in a loss of revenues to the federal government. For instance, in 1980-81, less than 60 per cent of the total operating costs of the Branch's 14 hospitals ($28 million) was recovered from the provinces and territories. This situation was brought to the attention of the Branch in our 1978 Report. Initiatives are now under way to correct these deficiencies.

Health Services and Promotion Branch

12.7 The Health Services and Promotion Branch is responsible for administering payment of contributions to provinces for insured hospital and medical care, and for certain extended health care services. These contributions, which totalled $4.3 billion in 1981-82, are subject to specific terms and conditions including universality of coverage, accessibility, portability and comprehensiveness of services. However, monitoring activities of these conditions by the Branch have been limited, and no clear criteria of what constitutes compliance have been developed.

12.8 In order to address this deficiency, the Minister of Finance announced in November 1981 that the national standards for health care would be clarified, and an effective mechanism for their maintenance developed, in consultation with the provinces, for incorporation in new legislation by April 1983.

12.9 A comprehensive audit of the Branch's health service and promotion activities by the Department's Internal Audit Directorate, on which we placed reliance, concluded that the administration of these activities was generally satisfactory.

Social Service Programs Branch

12.10 The Canada Assistance Plan is the most significant social assistance program in Canada. Through it, the federal government funds 50 per cent of the cost of provincial social assistance and welfare services to people in need. During 1981-82, an estimated 2.5 million Canadians received assistance. The federal government's share of the cost was $2.4 billion.

12.11 The Social Service Programs Branch is responsible for encouraging that provincial policy in the area of social assistance and welfare services is developed with a full understanding of the essential characteristics and requirements of the Canada Assistance Plan. It is also responsible for controlling payments to provinces. The Plan is complex and difficult to administer.

12.12 With the recent turnover in key staff and the growing size and complexity of the program, major steps are being taken by the Branch to document fully financial and administrative responsibilities, policies and procedures for the program, and satisfactory procedures to control the payment of funds to the provinces are being established.

12.13 Better utilization of available management information on provincial operations by the Branch would enhance the efficiency of the administration of the Plan.

12.14 The administration of the New Horizons program and the National Welfare Grants program is satisfactory.

Income Security Programs Branch

12.15 The Income Security Programs Branch is responsible for administering Family Allowances, Old Age Security (including Guaranteed Income Supplement and Spouse's Allowance) and the Canada Pension Plan. Benefits paid to recipients in 1981-82 amounted to $2 billion, $8.6 billion and $2.5 billion respectively. The programs are administered by headquarters in Ottawa and through a network of regional, district and local offices across the country.

12.16 In all three programs, EDP and financial controls over the determination and processing of benefit payments are adequate. However, there are weaknesses in existing procedures for verifying continuing eligibility for benefit entitlements that could give rise to incorrect or fraudulent payments.

12.17 In the Canada Pension Plan, the present departmental practice of excluding refunds of contributions in the determination of benefit entitlements has resulted in overpayments to recipients since the early 1970s. An estimated $7 million was overpaid in 1981-82. Although this represents less than one-third of one per cent of benefit payments for that year, the amount has been increasing each year.

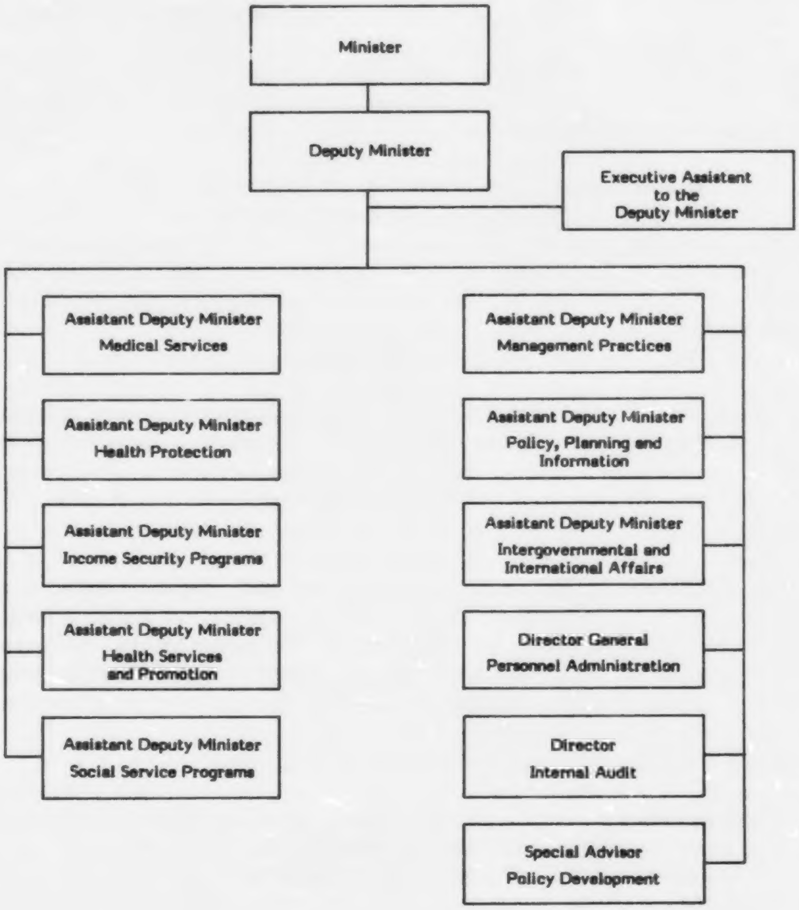
12.18 Approximately 2,300 person-years, or 80 per cent of the Branch's resources, are used in clerical and other operations, many of which are routine. The Branch maintains national and regional performance measurement systems to monitor productivity. These systems are incompatible, differ in their approach to performance measurement and use different sources of data. Not all of these systems provide adequate measures of labour productivity. Output measures used, such as volume of accounts, are not fully representative of the work performed.

12.19 **Internal audit.** Considerable progress has been made toward implementing all major recommendations arising from previous audits of the internal audit function and from a 1980 review by the Office of the Comptroller General. During our audit, we had close co-operation with internal audit and were able to place reliance on their work.

Exhibit 12.1

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

SUMMARY ORGANIZATION CHART - 31 MARCH 1982


Minister
Deputy Minister
Executive Assistant to the Deputy Minister
Assistant Deputy Minister Medical Services
Assistant Deputy Minister Health Protection
Assistant Deputy Minister Income Security Programs
Assistant Deputy Minister Health Services and Promotion
Assistant Deputy Minister Social Service Programs
Assistant Deputy Minister Management Practices
Assistant Deputy Minister Policy, Planning and Information
Assistant Deputy Minister Intergovernmental and International Affairs
Director General Personnel Administration
Director Internal Audit
Special Advisor Policy Development

Audit Scope

12.20 The audit focused on the Department's major program delivery systems. Because we relied on the work of internal audit, our audit also included a review of that function. In addition, we followed up on the observations and recommendations made in our 1978 comprehensive audit of the Department.

12.21 We did not include in our audit a review of certain of the principal management support systems in which major improvement initiatives are currently under way. These include planning and evaluation systems at both branch and Department-wide levels. These initiatives are in response to the Office of the Comptroller General's IMPAC Plan and the present Deputy Minister's efforts to establish corporate management systems. To allow sufficient time for establishing the proposed systems, we deferred our audit of them to a later date.

12.22 Our audit also included a review of electronic data processing and materiel management functions. Our observations and recommendations for improvement were reported to the Department. We do not consider these findings of sufficient importance to bring to the attention of Parliament.

Organization of the Department

12.23 The Department of National Health and Welfare was established in 1944 by the Department of National Health and Welfare Act. Its mandate is to promote and preserve the health, social security and social welfare of Canadians.

12.24 The Department has five program branches and four administrative branches. The program branches have traditionally operated with a large degree of autonomy, partly because their operations are so diverse. The branches are:

- Health Protection Branch: responsible for eliminating health hazards in the physical environment that may lead to illness and untimely death of Canadians, particularly those hazards associated with drugs, foods, disease, chemicals, medical devices and radiation emitting devices.
- Medical Services Branch: responsible for providing health care services to a variety of client populations, the most significant being the Indian and Inuit peoples of Canada.
- Health Services and Promotion Branch: responsible for administering payments for health care to provinces under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and certain other acts, and for providing assistance for health service and promotion activities through grant programs, publications and advisory and consulting services.

- Social Service Programs Branch: responsible for administering the Canada Assistance Plan and other federal-provincial cost-sharing social assistance programs, and providing assistance for a wide variety of social services through grants and contributions programs, consultation and advisory services.

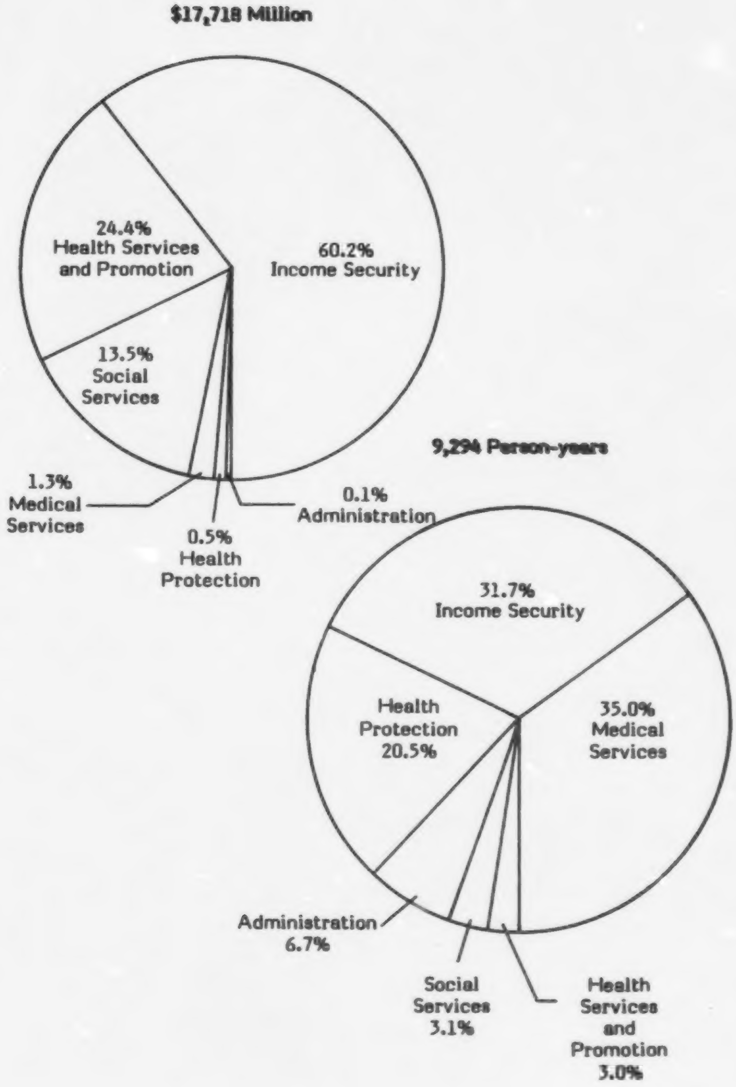
- Income Security Programs Branch: responsible for administering the Canada Pension Plan, Old Age Security (including Guaranteed Income Supplement and Spouse's Allowance) and Family Allowances programs.

12.25 Two administrative branches -- Management Practices and Personnel Administration -- provide administrative and technical support to the program branches. The other two administrative branches -- Policy, Planning and Information, and Intergovernmental and International Affairs -- provide input into the development of health and social policies.

12.26 An organization chart is set out in Exhibit 12.1. Financial and human resources for 1981-82 are shown for the Department as a whole in Exhibit 12.2 and for the individual program branches in Exhibit 12.3. Departmental expenditures represent approximately 25 per cent of the federal government's total budgetary expenditures.

Exhibit 12.2

DEPARTMENT OF NATIONAL HEALTH AND WELFARE
1981-82 FINANCIAL AND HUMAN RESOURCES



$17,718 Million

9,294 Person-years

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

DISTRIBUTION OF 1981-82 FINANCIAL AND HUMAN RESOURCES

AMONG PROGRAM BRANCHES

(expenditures in millions of dollars)

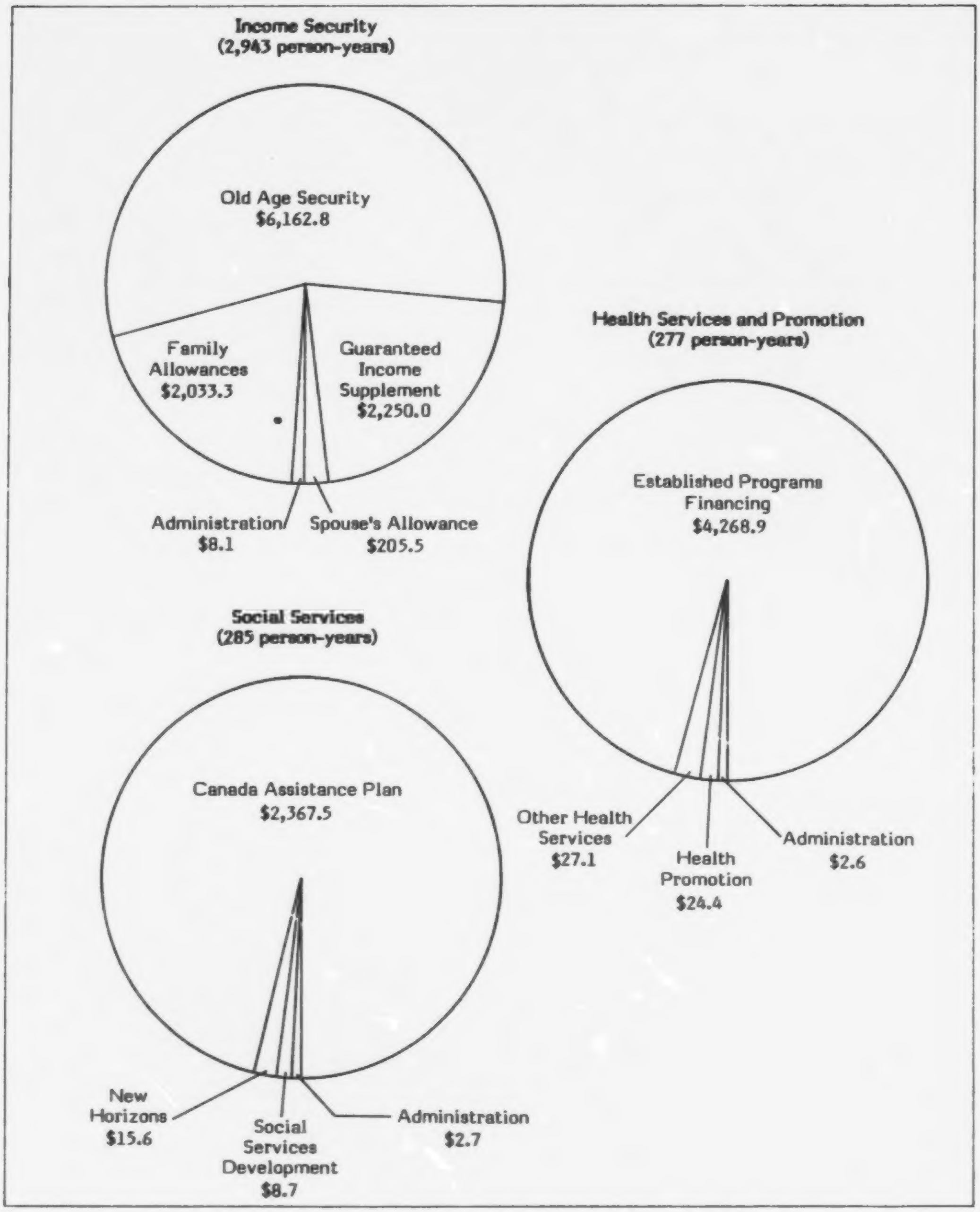
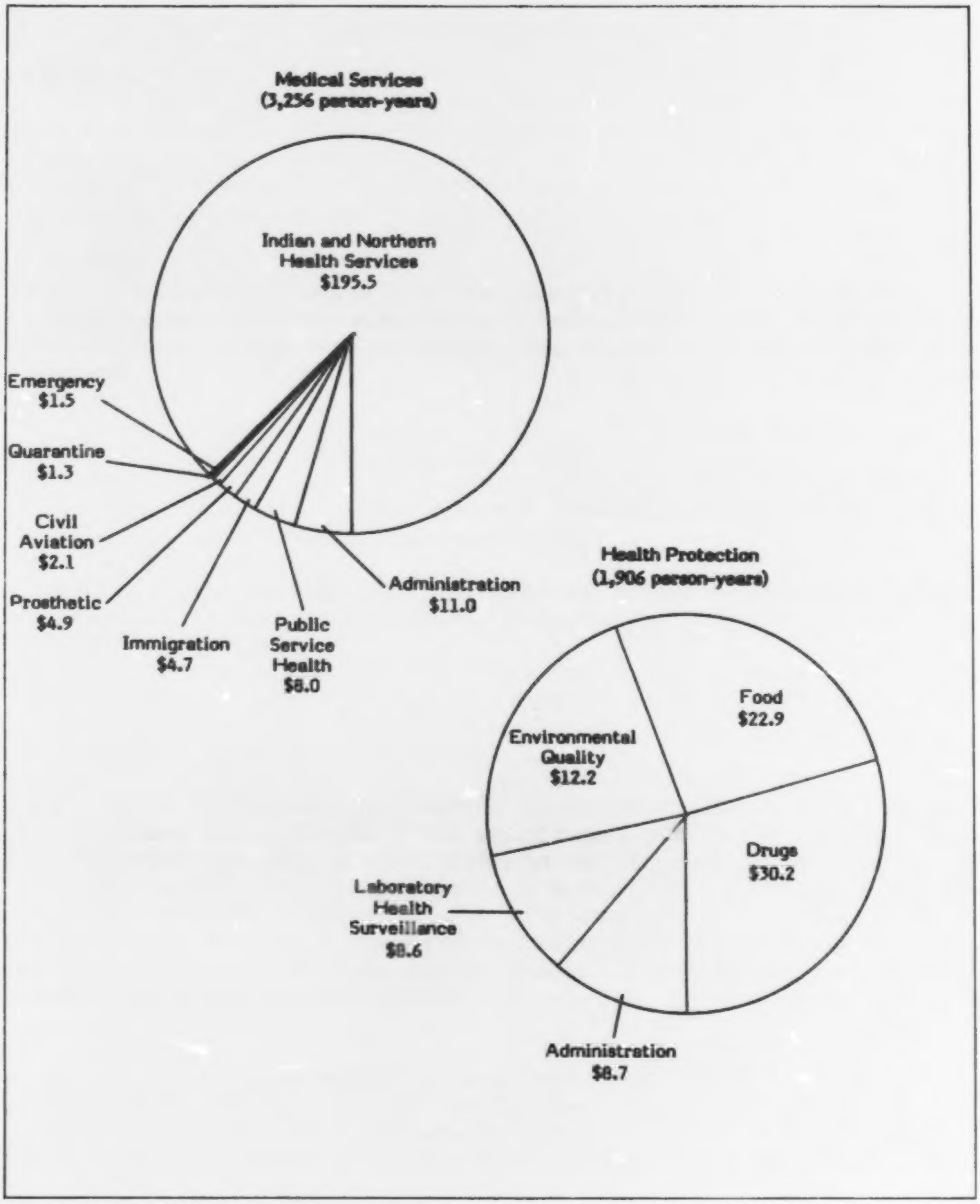


Exhibit 12.3


Medical Services
(3,256 person-years)
Indian and Northern
Health Services
$195.5
Emergency
$1.5
Quarantine
$1.3
Civil
Aviation
$2.1
Prosthetic
$4.9
Immigration
$4.7
Public
Service
Health
$8.0
Administration
$11.0
Health Protection
(1,906 person-years)
Food
$22.9
Environmental
Quality
$12.2
Drugs
$30.2
Laboratory
Health
Surveillance
$8.6
Administration
$8.7

Observations and Recommendations

Health Protection Branch

Environment

12.27 The Health Protection Branch is the smallest program branch in the Department in terms of financial resources. However, the nature of its activities in controlling health hazards in the environment make it one of the Department's most publicly visible programs.

12.28 The ultimate objective of the Branch is to reduce illness and untimely death associated with hazards in the environment, both man-made and natural. From this overall objective, management has developed the following program objectives:

- to provide assurance of the quality of drugs and cosmetics in Canada and their judicious use;
- to promote a high standard of safety, nutritional value and wise use of the Canadian food supply;
- to identify other man-made and natural environmental hazards and to control the use of dangerous products; and
- to prepare and disseminate information concerning the health status of the Canadian population and to establish standards for laboratory diagnostic procedures.

12.29 The Branch has five scientific directorates. Four of them deal with specific hazard areas: drugs, foods, environment, and disease control. They conduct applied research in their hazard areas, including the development of laboratory methods to measure contaminants and product ingredients, and establish health and safety standards. The fifth directorate, Field Operations, is responsible for compliance promotion activities with regard to foods, drugs, cosmetics and medical devices. These include inspections, laboratory testing, investigations and enforcement actions.

12.30 The federal regulation of drug quality and hazards is a responsibility exclusive to the Health Protection Branch. Other federal departments regulate aspects of food quality, while responsibility for the regulation of health hazards in the environment is shared with a number of federal and provincial departments and agencies.

Audit Scope

12.31 The audit of the Health Protection Branch included a review of the manner in which the Branch interprets and carries out its responsibilities and of the systems and procedures in place for managing facilities, materiel and electronic data processing. We visited offices and laboratories in Ottawa, Toronto, Montreal, Vancouver and Halifax, observed an inspection of a drug manufacturing plant and participated in a laboratory safety tour.

Jurisdiction

12.32 The Branch has a broad legislative basis and its objectives are difficult to measure. Its mandate leads to considerable interaction with other government departments and other levels of government as well as academic and other institutions.

12.33 The Branch is responsible for administering the Food and Drugs Act, the Narcotic Control Act, and the Radiation Emitting Devices Act. It also shares responsibility with other agencies for administering other legislation. This includes:

- Environmental Contaminants Act, shared with the Department of the Environment;
- Hazardous Products Act, shared with the Department of Consumer and Corporate Affairs;
- Atomic Energy Control Regulations, shared with the Atomic Energy Control Board; and
- Canada Dangerous Substances Regulations, shared with the Department of Labour.

12.34 Other federal departments, such as the Departments of Agriculture, and Fisheries and Oceans, administer other legislation in the area of food regulation. Municipal and provincial authorities enforce public health legislation in retail establishments such as restaurants.

12.35 In carrying out its role in controlling health hazards, the Branch is dependent for its success on a number of factors, including the resources available to it, the adequacy of its operating procedures, and its working relationship with other regulatory agencies. We found that there were limited management information systems to assist Branch management in reviewing and deciding on the levels of coverage provided by its directorates. These levels do vary. For example, in the area of inspection activities, the Branch annually inspects close to 100 per cent of drug manufacturers in the country. The federal government is the sole regulatory authority in the drug area.

12.36 In the food area, the Branch relies to a greater extent on regulation by other agencies and annually inspects about 2,000 of the approximately 4,500 major food processing establishments, giving priority to known or suspected health hazard areas. Although certain others are inspected by other federal, provincial and municipal health authorities, there is limited co-ordination of activities and exchange of information. In the environmental health area, less than 10 per cent of known radiation emitting devices are inspected annually.

12.37 There is currently no legal requirement for importers to inform the Branch of goods entering Canada. Documentation describing imported goods, voluntarily supplied by the importer to the Department of Revenue-Customs and Excise, is provided to the Branch. This information is not always available to the Branch on a current basis. There are, however, regular examinations of selected commodities where potential health hazards are suspected.

12.38 The Branch is in the process of implementing a program evaluation plan through which all program areas will be evaluated over the next five years. Management is of the opinion that the results of the evaluations should permit judgements to be made regarding the administration of legislative responsibilities. The Branch has recently taken steps to clarify working relationships with other agencies, particularly in the food programs area. The Branch now has signed memoranda of agreement with six provinces in the area of food hazard regulations; these arrangements provide for co-ordination of activities and regular exchange of information. Also, it has recently carried out joint fish plant inspections with Fisheries and Oceans Canada.

Facilities Management

12.39 The Branch operates 12 laboratory facilities, 7 in the National Capital Region and 5 in other regions across Canada. The laboratories in the National Capital Region, Montreal and Toronto are located in facilities designed for laboratory work. The Halifax, Winnipeg and Vancouver laboratories are located in federal general purpose buildings, parts of which have been fitted up for laboratory work. The laboratories were constructed in the 1950s, except for the Sir Frederick Banting Building in the National Capital Region and the Montreal and Toronto facilities which were built in the 1970s. The Department of Public Works (DPW) has responsibility for the maintenance of these buildings.

12.40 Rapid changes in scientific technology and an increasing knowledge of health hazards in the environment are continuously expanding and changing the nature of the services the Branch provides. Some of these laboratory facilities are now used for experiments which involve a wide variety of toxic substances. Increasing concern by the Department and DPW as to the adequacy of laboratory air handling systems to deal with current work requirements resulted in a number of studies, both internal and external, to review the facilities. These studies concluded that, in six of the facilities, ventilation and exhaust systems are not adequate for work with hazardous substances in the laboratories and are creating potentially hazardous work environments.

12.41 **Co-ordination with DPW.** At present, there is not a complete understanding of the respective roles of the Branch and the Department of Public Works in the area of laboratory facilities maintenance. This has resulted in slow response time to known deficiencies. Two examples follow.

12.42 Problems with the Sir Frederick Banting Building in Ottawa were noticed almost immediately upon occupancy of the building in July 1977. By August 1979, the nature of the deficiencies, principally the air handling systems, were identified. Subsequently, DPW initiated the necessary corrective action at a cost of approximately $800,000. These renovations were completed in October 1981.

12.43 Problems with the Virus Building in Ottawa, where some of the Branch's most important and hazardous work on diseases is carried out, have been known for more than three years. The results of an outside consultant study, completed in February 1981 for DPW, identified serious maintenance and design deficiencies in the building with respect to its air handling systems. The study reported that there was an urgent need to either upgrade the facility or construct an appropriately designed building to replace it.

12.44 The report was updated in February 1982 with essentially the same conclusions. A May 1982 study team, composed of staff from Medical Services Branch, Health Protection Branch and DPW, confirmed the consultants' observations. The team recommended another committee be established to identify specific defects, recommend necessary remedies and establish potential courses of action. That committee was scheduled to report in July and September 1982.

12.45 Branch management has pointed out that detailed identification of air handling deficiencies and definition of remedial measures is a complex task requiring exhaustive technical analysis. Nonetheless, given the serious deficiencies in both of these buildings and the potential hazards to employees, the amount of time taken to implement corrective action has, in our opinion, been too long. However, the Department is giving highest priority to addressing these deficiencies.

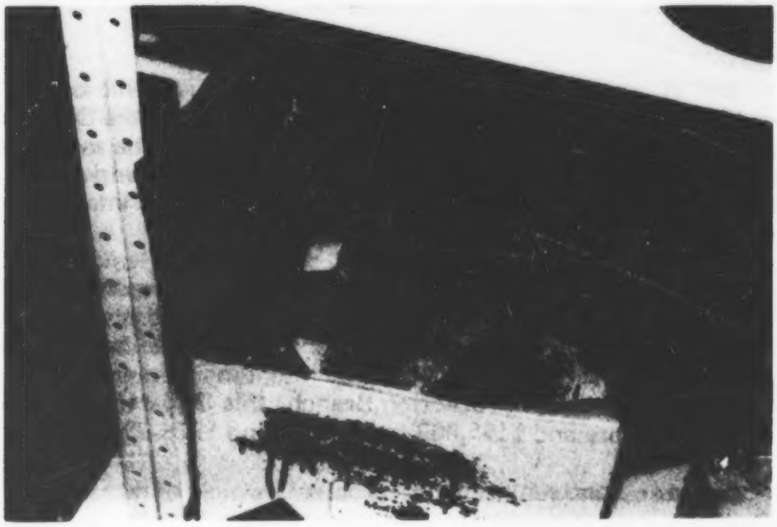
12.46 Since late 1980, the present Deputy Minister has carried on discussions with senior officials of DPW and Treasury Board Secretariat to facilitate appropriate corrective action. In March 1982, Treasury Board approved in principle a request for $48.5 million to upgrade the Branch's laboratories. This upgrading will be completed in 1992. At the request of Treasury Board, the Branch is now in the process of preparing more detailed plans of action for this upgrading, including financial implications for each facility. Those facilities which have been found to be the most inadequate have been given the highest priority for renovation. The Deputy Minister monitors progress on a monthly basis.

12.47 **The Health Protection Branch, in co-operation with the Department of Public Works, should clarify and document responsibilities for the maintenance of laboratory facilities. In particular, where potential hazards in work environments are identified, mechanisms should be established to ensure that immediate action is taken to eliminate the hazards.**

> We agree that respective responsibilities between the Departments of Public Works and National Health and Welfare regarding maintenance of Health Protection Branch laboratory facilities should be clarified and documented. To facilitate provision of maintenance services from that Department to Health Protection Branch, this Department transferred 13 person-years and $195,000 to DPW during 1978-79.
>
> Further, we agree that maintenance problems which create potential hazards in the work environment require special attention. Branch-wide procedures are in place to ensure that such problems are reported promptly to Branch officers so that the Department of Public Works can be advised.
>
> With respect to the Virus Building, Branch Management has transferred the experiments involving the most hazardous substances to other buildings and has deferred other experiments. The remaining work is being closely monitored and contingency plans to respond to micro-biological accidents are being prepared. Staff have been instructed to follow strict laboratory procedures to reduce the potential for hazards until the building can be renovated. In addition, a committee of technical experts in the biomedical and microbiological field has prepared recommendations regarding the correction of inadequacies in the air handling systems.

12.48 **Safety and security procedures.** The Treasury Board, the Department of National Health and Welfare and the Health Protection Branch have issued various policies and guidelines on occupational health and safety, and safety practices in laboratory operations. The Branch has 17 formal operating safety committees and several other ad hoc committees. However, we found that the safety committees are active but with varying degrees of regularity and consistency in their monitoring and inspection activities: there is no established Branch-wide safety orientation program for new employees or ongoing safety awareness program; and there are no formal contingency plans in the event of chemical or microbiological accidents.

12.49 During the audit, we observed and documented examples of poor laboratory practices. Examples include using toxic substances on the bench rather than under a fume hood, excessive clutter, high hazard lab doors left open, air



During our audit, we observed and documented inadequate safety practices in several of the Branch's laboratories. The photographs above represent instances of improper storage of hazardous substances; the pictures on the next page are examples of proper storage.

locks not used, protective eyeglasses not worn and banned substances still being used.

12.50 Deficiencies in safety management have been previously identified by internal audit, branch safety committees and outside consultants.

12.51 Physical security over laboratory facilities is generally adequate. For instance, controls and procedures in place to guard against the unauthorized use or improper disposal of dangerous drugs are adequate.

12.52 **The Health Protection Branch should take steps to improve existing safety practices in its laboratories. In particular:**

- **procedures should be developed to ensure that existing occupational health and safety guidelines are adhered to;**
- **all safety committees should carry out inspections on a regular basis;**
- **Branch-wide inspection procedures should be established to ensure that safety monitoring procedures are consistently applied and that action to correct deficiencies is undertaken; and**
- **contingency plans for chemical or microbiological accidents should be established for each laboratory building.**

The Branch will ensure adherence to existing occupational health and safety guidelines, through regular inspection and monitoring activities.

A review of the structure and activities of Branch safety committees to establish a consistent approach across the Branch will be completed by December, 1982. Regular inspections will be undertaken by these committees.

Branch-wide inspection procedures will be implemented by December, 1982.

Contingency plans for chemical and microbiological accidents will be established for each laboratory building by the end of October, 1982. The plans will be tested regularly.

12.53 **Waste disposal.** The Branch generates approximately 50 tons of waste each year, of which an estimated 20 per cent is toxic. The Branch is responsible for handling and storing toxic waste; the Department of the Environment is responsible for picking it up and ultimately disposing of it.

12.54 There have been a few instances when the Department of the Environment has refused to pick up toxic wastes generated by the Health Protection Branch because the Department had no means of ultimately disposing of the material. In such instances, the Branch has preferred to contain the material in an area where the people familiar with its properties have the knowledge and expertise to deal with it.

12.55 It is recognized that it is unlikely that this problem can be effectively eliminated until such time as the federal government establishes a waste storage facility. However, we found that the handling and storage of hazardous chemicals and waste within the Branch were not always adequate. We noted instances where hazardous chemicals and waste were improperly stored in unlocked areas, containers were leaking, labels were missing and substances were stored in a precarious manner. All these instances were raised with management who undertook corrective measures.

Medical Services Branch

Environment

12.56 The Medical Services Branch provides health services to certain client populations, including Canadian Indians and Inuit, all residents of Yukon and Northwest Territories, federal public servants, immigrants, international travellers and civil aviation personnel. Because of the diversity and location of the population it serves, the Branch is highly decentralized. Management and administration of health services are concentrated in the Branch's 10 regional and 25 zone offices across the country and overseas. The Branch is responsible for the operation of some 600 health facilities in Canada.

12.57 The Branch's main activities relate to Indian and Northern Health Services. They involve providing health services to registered Indians and Inuit resident in the provinces and to all residents of Yukon and Northwest Territories. Services provided include public health care programs, active treatment services in particular areas, health promotion, preventive health programs, environmental health services on reserves, and programs involving Indians in their own health care. These activities involve 2,500 person-years and had an operating budget of $196 million in 1981-82. In implementing this program, the Branch operates 9 multi-functional hospitals, 5 small hospitals, 15 clinics, 88 nursing stations and 124 health centres. The total population served is approximately 350,000.

12.58 Delivery of these health services is complex. Contributing to this complexity are geographic dispersion and isolation of the population, the variety of native cultures, languages and needs, and fragmentation of jurisdictional responsibilities.

12.59 We found, as we did in our 1978 audit, that the senior personnel at headquarters and in the regions are generally experienced officers who have good knowledge of local operations and are actively involved in them.

Audit Scope

12.60 The audit of the Medical Services Branch focused on Indian and Northern Health Services, which account for 86 per cent of the Branch budget. We also examined EDP, facilities and materiel management functions in the Branch and followed up on matters arising from our 1978 comprehensive audit and recent internal audit reports. The audit was conducted at headquarters and at the Ontario, Pacific and Yukon regions. The regional audits included visits to zone offices, hospitals, nursing stations and health clinics.

Indian and Northern Health Services

12.61 **Indian Health Policy.** A significant element affecting the delivery of health services is the federal government's Indian Health Policy, aimed at improving the quality of community life, raising the level of health of Indians and Inuit to that of other Canadians, and increasing participation by Indians and Inuit in the management of their own health care programs. The Policy, adopted by the federal government in September 1979, places emphasis on developing and maintaining an effective relationship between the government and the Indian and Inuit peoples of Canada.

12.62 The goal of the Policy is "to achieve an increasing level of health in Indian communities, generated and maintained by the Indian communities themselves." The means to achieve this objective, as outlined in the Policy, are based on the:

- concept of community development -- socio-economic, cultural and spiritual to remove conditions of poverty and apathy;
- special relationship between the federal government and the Indian and Inuit peoples, strengthened by greater involvement of Indians and Inuit in planning, budgeting and delivering health programs; and
- Canadian health system -- composed of specialized and interrelated elements by federal, provincial and municipal governments, by Indian bands and the private sector, again strengthened by giving the Indian and Inuit peoples a greater role in the delivery of services to meet specific community needs.

12.63 In our opinion, a reasonable expectation is that the Branch would have completed a comprehensive interpretation of the 1979 Indian Health Policy, including establishing objectives and goals and defining standards for the delivery of health care services, in particular, non-insured health services. This has not yet been completed mainly because of the situation described below.

12.64 Prior to 1979, non-insured health services were provided on the basis of need to status Indians and Inuit living on reserves. In August 1978, in the interest of better fiscal control and in order to confirm existing practices and ensure uniformity in all regions, the Branch issued a guideline, "Policy Directive for the Provision of Uninsured Medical and Dental Benefits to Status Indians and Inuit". Strong opposition from Indians resulted. They claimed entitlement to free universal health services under Treaty rights. Their opposition resulted in the federal government declaring a six-month moratorium on the guideline in February 1979, to provide a period for consultation regarding the controls. No meaningful results were achieved. The moratorium ended in September 1979 when the Government withdrew the guideline and announced the present Indian Health Policy. This had the effect of extending non-insured health services to status Indians and Inuit, regardless of ability to pay and, under specific circumstances, place of residence.

12.65 These health benefits are now provided, as stated in the Policy, in accordance with "professional medical or dental judgement, or by other fair and comparable Canadian Standards". Because no such standards exist nationally or provincially outside the hospital setting, the Branch has had difficulty in establishing national norms.

12.66 In early 1982, the Branch began to develop a position paper and policy interpretation manual on the Indian Health Policy. However, progress has been slow.

12.67 **Co-ordination with DIAND.** The interpretation and implementation of the Indian Health Policy is affected by several other federal programs which are concerned with Indians and Inuit, especially the Department of Indian Affairs and Northern Development (DIAND). DIAND also has responsibility for the concept of community development, fostering band self-government and transfer of control, and increasing Indian involvement and capabilities to assume greater self-reliance through funding of training programs.

12.68 When the Indian Health Policy was introduced, the Branch recognized the need for ongoing interdepartmental liaison to ensure co-ordination in the development of policies and delivery of services, and it established a 'senior interdepartmental consultant' position. The purpose of this position was to monitor activities of both the Branch and DIAND to identify and prevent any unnecessary and non-productive duplication of efforts by the departments. This position, at the completion of our audit, had been vacant for over six months; active recruitment efforts were under way.

12.69 Within the Branch, neither headquarters nor the regional offices have a written framework that defines the responsibility for co-ordination activities with other agencies and the manner in which such activities will be carried out. There does exist, however, an abundance of arrangements and contacts, mostly at the zone level, and established by operational people for specific issues. These include environmental and public health concerns regarding sewage systems needed because of DIAND capital construction projects. At headquarters, regular meetings are held as required.

12.70 Despite these specific arrangements, the Branch's medical and health care programs and the interdependent social, economic, employment, educational and cultural programs of DIAND do not always effectively support each other. Of concern are the following:

- Development of procedures to facilitate transfer of control of programs to Indians. DIAND has developed criteria, procedures and transfer models that recognize the level of community development and readiness to assume responsibility. The Branch should evaluate whether they are applicable to the transfer of medical and health services and facilities.
- Development of procedures to increase Indian involvement. Again, the Branch should assess the extent to which DIAND training and skills development programs are sufficient requisites for increasing Indian involvement in medical and health care services delivery.

12.71 The independent development of procedures to facilitate transfer of control and to increase Indian involvement may be a duplication of effort. Moreover, in the absence of complementary timing of program transfers from the Branch and DIAND, the capacity of Indian communities to assume control may be overloaded.

12.72 The potential and the need for greater co-ordination have been recognized by the Departments concerned. There has been some collaboration with respect to health-related training programs, alcohol and drug abuse problems, and community health development. An interdepartmental steering committee to co-ordinate federal activities concerning transfer of services to Indian people was recently convened by DIAND. The first meeting was held in June 1982.

12.73 **The Medical Services Branch should strengthen procedures to ensure better co-ordination of activities with other federal agencies that have responsibility for Indians and Inuit, especially DIAND.**

> The Branch has moved to strengthen the consultative process with other departments and agencies, particularly DIAND. In this regard,

an inter-departmental liaison officer has been recruited who will be instrumental in ensuring effective co-ordination of activities among federal agencies.

12.74 **Non-insured health services.** Non-insured health services provided to status Indians and Inuit include patient transportation, prescription drugs, health and dental care, payment of certain medicare premiums, glasses, ophthalmic and orthopaedic appliances.

12.75 The Indian Health Policy provided that, should the provinces or municipalities refuse to accept responsibility for services to off-reserve Indians, the Branch would assume the financial burden. Where provinces or municipalities have not extended such services, the Branch has assumed these additional costs. The net effect has been the extension of these services to status Indians and Inuit regardless of ability to pay and, in specific circumstances, place of residence.

12.76 This increase in coverage has contributed to a rapid escalation in costs -- from $36 million in 1979-80 to an estimated $78 million in 1982-83. Continuing cost escalations are forecast for future years. Moreover, when the Indian Policy was approved in 1979, a spending ceiling was established by Cabinet beyond which the Branch has to seek supplemental funding. This requires an annual request for ever increasing amounts. Supplementary estimates of $14 million were required for 1981-82, and an estimated $21 million will be required for 1982-83.

12.77 Furthermore, high staff turnover at field offices, together with the absence of nationally established delivery standards of health care, and limited central direction in this regard, has resulted in a diversity in the levels of services provided. Since the introduction of the 1979 Policy, there has been little procedural and administrative guidance from the Branch to the regions and zones to ensure consistent availability of non-insured medical and health care services.

12.78 The provision of non-insured medical services is not always being limited to status Indians and Inuit. In the three regions we visited, services were being extended to certain non-status Indians as well, and the kinds of health services provided varied among the regions. We also noted that the status of patients was not being verified in all cases when payments were made, and we observed other instances where payments were made on behalf of Indians covered under a provincial medicare plan. Contributing factors to this situation are operating conditions of isolation, the difficulty in obtaining up-to-date listings of status Indians, and the refusal of many native people to use provincial health plans on the grounds that they have a special relationship with the federal government.

12.79 Because of the problems experienced in 1979, the Branch has no current plans to reissue guidelines. However, management is in the process of developing program delivery standards and expects to complete this by September 1984.

12.80 Approval for payment of services is sometimes given without sufficient assurance that services have been rendered and that the prices charged are according to contract or are reasonable. Some examples are:

- In two zone offices, fees paid to optometrists for fitting eyeglasses were paid prior to the receipt of services. In a few cases, the services were never rendered.
- In one region, payments for dental services were not in accordance with the fees agreed with the dental association.
- In two regions, visits by patients to other locations for medical reasons were extended without prior approval; nevertheless, the total costs of the visits were paid by the regions.

12.81 To ensure uniform delivery of non-insured health services, the Medical Services Branch should strengthen the development of appropriate program delivery standards and the central co-ordination for these services.

> The Branch will continue development of Program Delivery Standards relative to non-insured health services. Directives and procedures for regional implementation will be developed and distributed as they are completed, with all action to be finalized by September 1984.

12.82 The Medical Services Branch should ensure that approval for payment is given only when sufficient assurance is obtained that services have been rendered and costs charged are reasonable.

> The Branch will review and, as necessary, strengthen existing account verification procedures.

12.83 **Reimbursable insured medical services.** Medical services provided at the Branch's hospitals and medical facilities and by professional medical practitioners are, in most instances, covered under provincial and territorial insurance plans. When such services are provided, reimbursement at per diem rates for in-patient and out-patient services, and fees for certain professional services can be claimed from the plans.

12.84 General departmental policies exist for establishing and reviewing rate structures and for billing for services offered by the Department. However, neither the Branch nor the regions have documented policies, guidelines and procedures for providing the various reimbursable medical services. Moreover, with only incomplete and inaccurate cost information available in the negotiation process with provinces and territories, the regional managers have been at a disadvantage when negotiating rates for in-patient and out-patient services. In several instances, the rates were established by the provinces on the basis of patient-day cost reported by other than Branch-operated hospitals.

12.85 The Branch accounting systems for hospitals and nursing stations do not provide for recording revenues and costs in a uniform, complete and accurate manner. Missing information and backlog of work have led to late billings for reimbursable services provided during 1981-82. Moreover, recoveries for services are, in some cases, based on informal arrangements which are neither updated nor negotiated on a regular basis.

12.86 The absence of documented guidelines, inaccurate cost information and the relatively low priority given to recoveries have resulted in the Branch absorbing a high portion of the costs incurred in providing these services. The following are areas where additional recoveries could be made.

- In 1980-81, less than 60 per cent of the total operating costs of the Branch's 14 hospitals ($28 million) was recovered from the provinces and territories. Allowing for services provided free of charge to Indians and Inuit, we estimate that recoveries of these operating costs should be considerably higher. A similar observation was made in our 1978 report.
- Recoveries by one region for medical services provided to non-Indians and charged for on a per capita basis are based on population figures as they existed in 1961. Had current population figures been used in 1981-82, the region could have recovered an additional $400,000 in revenues.

12.87 The Branch has undertaken two studies: one on Pricing and Billing to assess existing policies, procedures and practices, to conduct analyses and to make recommendations; and one on Hospital Accounting to determine the need for an improved hospital accounting system. Both studies were expected to be completed by September 1982. Branch officers expect that many of the shortcomings identified above should be corrected when new policies and procedures are implemented. One region was recently successful in obtaining an additional $2.5 million from the province for hospital costs incurred during 1971 to 1979.

12.88 **Contribution agreements.** Through contribution agreements, the Branch assists Indian and Inuit groups to assume control of certain components of the Branch's health delivery system. These include constructing new health facilities as well as delivering health services, providing transportation for medical emergencies and delivering services under the separately administered National Native Alcohol and Drug Abuse Program (NNADAP). The Branch currently administers some 600 contribution agreements, with a total value of $19.5 million.

12.89 Although adequate draft policies and procedures for contribution agreements exist at the Branch level, they have not been adequately communicated to regions/zones to ensure consistent application and to enable management to maintain proper controls. Moreover, except for the NNADAP, the existing management information system for program contribution agreements at the Branch, region or zone levels does not provide complete, timely, reliable and relevant information.

12.90 Monitoring is being carried out on an ad hoc basis by the regions and zones. Contributions continue to be paid even though bands are not providing an accounting for the moneys they receive, as provided for under the contribution agreements. Even though audits are provided for under the contribution agreements, very few have been conducted. However, the Branch has recently established an Audit Section to review these agreements.

12.91 **The Medical Services Branch should modify its management information system to permit more effective monitoring of contribution agreements.**

> The Branch will take action to improve the quality of management information and monitoring procedures for the administration of contribution agreements. A Branch Information Development Plan which includes improvements for monitoring of contribution agreements is now under development. In addition, existing draft policies and procedures for existing contribution agreements will be finalized and communicated to regional/zone managers by 31 March 1983.

12.92 **Contracts.** Policy and procedures for the administration of contracts for medical services are generally adequate.

Health Services and Promotion Branch

Background

12.93 The major objectives of the Health Services and Promotion Branch are to encourage and assist Canadians to adopt a way of life that enhances their physical and mental well-being, and to assist the provinces to bring their health standards to, and maintain them at, national standards.

12.94 The Branch administers payments for health care to provinces under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and certain other acts, and provides assistance for health service and promotion activities through grant programs, publications and advisory and consulting services.

Audit Scope

12.95 We reviewed the systems and procedures in place for administering health care payments to provinces.

12.96 The Department's Internal Audit Directorate conducted a comprehensive audit of the Branch's health service and promotion activities in 1981-82, and we placed reliance on their work. The overall conclusion was that the management of these activities is generally satisfactory. Some improvements, however, are required in existing management information systems, the processes for approving and amending operational work plans, and financial administration. Branch personnel have developed an action plan to respond to the internal audit recommendations.

Established Programs Financing

12.97 The Branch is responsible for paying annual contributions to the provinces with respect to insured hospital and medical care and certain extended health care services. These contributions, which totalled $4.3 billion in 1981-82, are subject to the terms and conditions specified in the Hospital Insurance and Diagnostic Services Act of 1957 and the Medical Care Act of 1966. These conditions include universality of coverage, accessibility, portability and comprehensiveness of services.

12.98 The conditions specified in the legislation have not been translated into operational standards. The lack of specificity of the legislation has been a contributing factor. As a result, monitoring activities by the Health Services and Promotion Branch have been limited, and no clear criteria of what constitutes compliance have been developed.

12.99 In 1981, the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements concluded that "... the proper role of the federal government, in consultation with the provincial governments, is the formulation, monitoring and enforcement of appropriate conditions on federal financial support of provincial programs."

12.100 In November 1981, the Minister of Finance announced that the national standards for health care would be clarified, and an effective mechanism for their maintenance developed, in consultation with the provinces, for incorporation in new legislation by April 1983.

Social Service Programs Branch

Background

12.101 The Social Service Programs Branch administers federal-provincial cost-sharing programs for social assistance and welfare services; these programs represent 99 per cent of the Branch's expenditures. The Branch also administers two grants and contributions programs, New Horizons and National Welfare Grants. In addition, it provides information and consultation on a variety of social service issues relating to family and children's services, community development and voluntary action programs.

Audit Scope

12.102 Our audit focused on the Canada Assistance Plan and the New Horizons and National Welfare Grants programs. It also included a follow-up of our 1978 comprehensive audit.

Canada Assistance Plan

12.103 **Background.** The Canada Assistance Plan (CAP) is the most significant social assistance program in Canada. Through it, the federal government funds 50 per cent of the cost of provincial social assistance and welfare services to people in need. All provinces participate in the Plan. Contributions to provinces, other than Quebec, are paid in cash; those for Quebec are paid in tax points and a cash payment by special arrangements under the authority of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act (1977).

12.104 During 1981-82, an estimated 2.5 million Canadians received social assistance or welfare services. The federal government's share of the cost was $2.4 billion. The cost of the Plan has doubled over the last four years. The cost, however, is largely dependent on the provincial level of expenditure.

12.105 Social assistance includes payments for basic requirements such as food, shelter, clothing and fuel, for special items such as essential repairs to property, and for care in welfare institutions such as homes for the aged, nursing homes and child care institutions. Approximately 80 per cent of the Plan's expenditure falls under the assistance provisions of the Plan.

12.106 Welfare services shared under the Plan include day care, homemakers, rehabilitation services, casework, counselling, assessment and referral services and child welfare services.

12.107 At the time of our 1978 audit, it was anticipated that the Canada Assistance Plan Act would be replaced in part by a block funding agreement with the provinces. In May 1978, the Social Services Financing Act, Bill C-55, which proposed block funding instead of 50/50 cost sharing, was tabled in the House of Commons. It was withdrawn in November 1978.

12.108 During 1979 and 1980, the CAP Directorate's efforts centred on re-establishing arrangements with the provinces, which had been preparing for proposed changes in funding, and starting some initiatives to strengthen the administration of the Plan.

12.109 In late 1980, a federal-provincial (Murphy-Junk) task force, was established by the Federal-Provincial Conference of Ministers of Social Services to identify and review administrative and policy issues in the Canada Assistance Plan that were of concern to the provinces and to suggest possible solutions. It completed its work in May 1981 and reported to the Ministers in February 1982.

12.110 In 1981, the Canada Assistance Plan was included in the review by the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements (the Breau Committee). The Task Force Report, published in August 1981, recommended "the continuing use of this cost sharing approach." The Branch considers this report to be an indication that there may not be major changes in the near future to the existing legislation and cost-sharing arrangement.

12.111 **Documenting and communicating policies and procedures.** In our 1978 Report, we commented on the need to improve substantially the documentation, communication and application of administrative and financial policies and procedures for the program. The absence of properly documented guidelines, responsibilities and procedures has resulted in lengthy delays in processing applications for shared cost funding and provincial claims and in inadequate direction and monitoring of federal field representatives. Because program officials anticipated in 1978 that the Plan would be replaced in part by a block funding agreement, little action was taken to implement our recommendations at that time. The Murphy-Junk task force and the Breau Committee had similar observations on the need to document policies and procedures.

12.112 Compensating for the absence of such procedures was the experienced staff associated with the program. Since 1978, however, the Director of Program Finance and the Director of Field Operations have retired, and their successors have been in their jobs little more than a year. In addition, the senior staff has changed in two of the field offices. The senior field representatives in five provinces are due to retire in the next few years. Most significantly, the Director General and the Assistant Deputy Minister, who have been with the program since its inception, have left the Branch.

12.113 Major initiatives are now under way or have been implemented to address these concerns. These include:

- distributing a consolidated set of guidelines to provinces and field representatives;
- developing a series of orientation and problem-solving seminars for representatives from the provinces, other federal departments and the CAP Directorate;
- developing a financial procedures manual;
- developing a policy manual; and
- implementing a study to review the feasibility of combining or consolidating various levels of audit activities.

12.114 With the expected high turnover of experienced staff within the year, the Branch is giving priority to completing the manuals. It is too early for us to evaluate their effect on improving program management.

12.115 **Management information systems.** The Directorate is responsible for ensuring that provincial policy in the area of social assistance and welfare services is developed with a full understanding of the essential characteristics and requirements of the Canada Assistance Plan. It is also responsible for controlling payments to provinces. Extensive management information on program operations in the provinces is needed to carry out these responsibilities.

12.116 Under the Memorandum of Agreement with each province, one provincial responsibility is "to provide to Canada from time to time such statistical and other information relating to the administration and operation of the provincial law as Canada may request and it is practicable for the Province to provide." Responsibility for funding and encouraging the development of information systems in the provinces and compiling data on social assistance and welfare services is the responsibility of the Policy, Planning and Information Branch of the Department. However, although this information has been used by the Directorate for specific matters, it has not all been used on a regular basis.

12.117 The Breau Committee recommended that "the Canada Assistance Plan requirements for statistical and financial information be strengthened to improve understanding of the programs cost-shared under the Plan."

12.118 The Directorate has made efforts over the past year to use information from the Policy, Planning and Information Branch on general assistance caseloads by province on a regular basis and to link the data with general economic indicators such as unemployment and inflation rates. In addition, the

Directorate does maintain detailed statistics on those homes for special care which it approves. However, similar statistics are not compiled on the types of welfare services being funded and the characteristics of the users. For example, the Directorate has no data on the number of spaces available in daycare centres it is cost sharing in, their location or their cost. It does not maintain information on the age or socio-economic background of the users of the service.

12.119 **To ensure more efficient administration of the Plan, the Canada Assistance Plan Directorate should make more extensive use of available departmental information on provincial welfare services programs.**

> As indicated by the Auditor General, the Branch does have access to a departmentally developed and managed information system regarding Provincial and Federal welfare programs.
>
> The Branch will, however, intensify recent efforts to make more extensive use of this data base. Additionally, the Director General of CAP participates as a Steering Committee member in the ongoing development of these systems.

12.120 **Reviewing and approving applications.** Procedures for reviewing and approving submissions by the provinces are generally well documented. The assessment criteria used by program staff are contained in the Act, Regulation and Agreements. In the case of welfare services and homes for special care, they are also contained in directorate guidelines.

12.121 **Payment and monitoring of contributions.** All provinces, except Quebec, receive approximately one-twelfth of their annual budgeted amount each month. This amount is adjusted according to actual figures submitted monthly by the provinces. The claims are examined by the federal field representative who certifies "that the amounts included as payments and adjustments are as shown in the accounts and records of the province." Payments are made to the provinces on the basis of the federal field representatives' certification.

12.122 As in 1978, we found that the federal field representatives have complete discretion in determining the procedures to be carried out to certify claims. Not all field offices have documented their procedures, and documentation varies from a complete system description in one province to a checklist audit program in another. These procedures have not been approved by senior management.

12.123 The Branch has recognized the problem and is in the process of documenting procedures in the field offices with a view to identifying common and essential procedures. We support these efforts.

New Horizons

12.124 New Horizons is a program established in 1972 to encourage retired Canadians to become more actively involved in community life. This objective is accomplished through cash contributions to groups of senior citizens to enable them to share their interests, skills and talents in developing and carrying out projects of benefit to the participants and others in their community.

12.125 We concluded that the administration of the program is satisfactory. The program managers have developed efficient operational procedures which are documented and are closely followed.

National Welfare Grants

12.126 The National Welfare Grants program was established in 1962 to assist welfare agencies to develop and improve welfare services in Canada. The program develops first-hand information on social service issues for the Department while supporting applied extramural research and innovative approaches to social welfare problems affecting Canadians. Total grants and contributions amounted to $5.0 million in 1981-82.

12.127 We concluded that the National Welfare Grants program is satisfactorily administered in accordance with the terms, conditions and procedures set out. Minor weaknesses, however, were noted in procedures for project renewal approvals and for audit of contributions. These were brought to the attention of management.

Income Security Programs Branch

Background

12.128 The Income Security Programs Branch administers the Family Allowances program, the Old Age Security program and the Canada Pension Plan.

12.129 The legal mandates for the branch programs are set out in the Old Age Security Act, the Family Allowances Act, the Canada Pension Plan legislation, and the incorporating statute for National Health and Welfare. Monthly benefits and eligibility are both determined by legislation. The Branch objective as described in the Estimates is "to maintain and improve the income security of the people of Canada."

12.130 The programs are administered by headquarters in Ottawa and through a network of 10 regional, 55 district and 119 local offices across the country. The

Old Age Security and Family Allowances programs are fully decentralized. The Canada Pension Plan operations are currently being decentralized to the regions.

12.131 The Branch carries out three major activities for each of the programs. It determines an individual's initial and continuing eligibility for benefits, pays benefits, and provides advice, information and assistance to the public.

Description of Programs

12.132 **Family Allowances.** Family Allowances are paid monthly on behalf of children under the age of 18 who are resident in Canada and who are maintained by parents or guardians, who must themselves meet specific residence requirements. During 1981-82, payments of $2 billion were made on behalf of 7 million children.

12.133 **Old Age Security.** Under this program, there are three kinds of benefits: Basic Pension -- a monthly benefit paid to persons aged 65 and over; Guaranteed Income Supplement -- a monthly supplement paid to Old Age Security pensioners whose income is below a specified level; and Spouse's Allowance -- a monthly allowance paid to Old Age Security pensioners' spouses who are 60 to 64 years old. All recipients must meet specific residence requirements.

12.134 Of the 2.4 million persons who receive Old Age Security benefits, 1.3 million receive the Guaranteed Income Supplement. Eighty-seven thousand receive the Spouse's Allowance. Benefit payments in 1981-82 amounted to $8.6 billion.

12.135 **Canada Pension Plan.** The Canada Pension Plan was established in 1965. It provides for the payment of retirement pensions to members of the labour force who have contributed to the Plan. It also provides benefits to disabled contributors, and death and other benefits to contributors' spouses and children. The Plan applies to all parts of Canada, except the province of Quebec, which has a separate, though similar, plan. Under existing arrangements, all benefits and all costs incurred in the administration of the Plan are financed from contributions made by employers and employees, together with contributions of self-employed persons, and from the interest earned through the investment of funds.

12.136 Currently, some 14.2 million Canadians contribute to the Plan, and 1.4 million people receive benefits. In 1981-82, contributions totalled $3.3 billion, and pension and other benefit payments amounted to $2.5 billion. Details of receipts and disbursements of the Plan are shown in Exhibit 12.4.

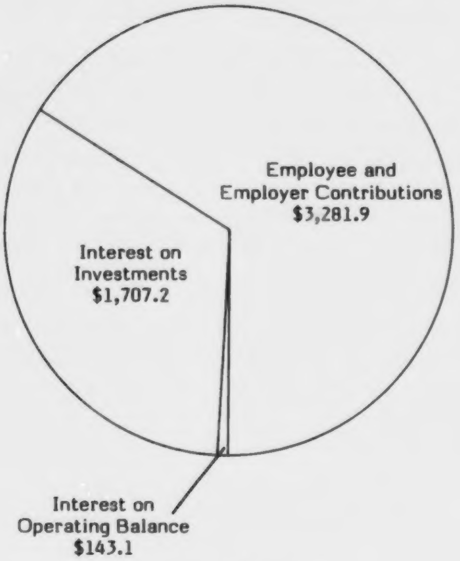
Exhibit 12.4

DEPARTMENT OF NATIONAL HEALTH AND WELFARE

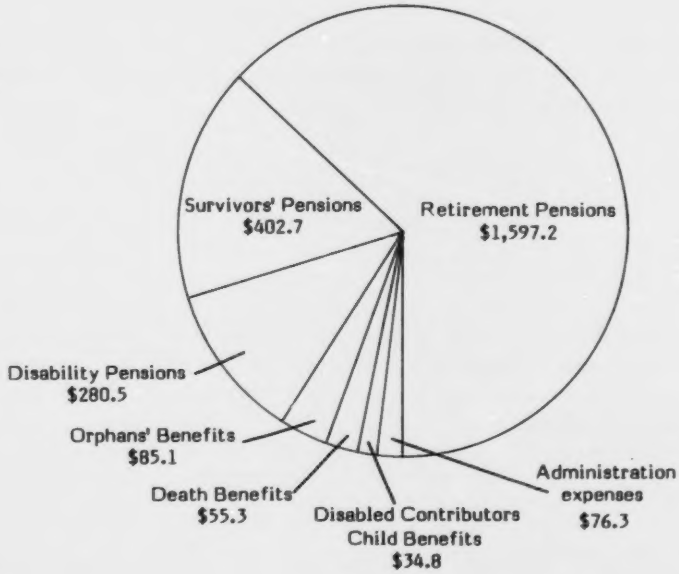
CANADA PENSION PLAN

RECEIPTS AND DISBURSEMENTS 1981-82

(in millions of dollars)



Receipts $5,132.2



Benefit payments ($2,455.6) and Expenses ($76.3) $2,531.9

12.137 The legislation establishing the Canada Pension Plan specifies that the Minister of National Health and Welfare is responsible for administering all parts of the Plan, except Part I which comes under the jurisdiction of the Minister of National Revenue. Part I deals with the coverage of persons under the Plan and the collection of contributions. Certain other departments have been assigned specific responsibilities in the Plan's administration. As examples, the Department of Finance is responsible for the investments of the Plan, the Department of Insurance carries out actuarial valuations of the Plan, and the Department of Supply and Services designs and operates the computer systems used in administering the Plan.

Controls over the determination and processing of benefit payments for the Family Allowance, Old Age Security and Canada Pension Plan programs are generally adequate. Great stress is placed by the Branch on the quality and level of service provided to the public.

Audit Scope

12.138 The audit focused on the systems and procedures for administering these programs. These included financial and EDP systems, processes for determining benefit payments, and performance measurement systems. We also followed up on matters arising from our 1978 audit and reviewed the work carried out by internal audit. The audit was carried out at headquarters and at the regional offices in St. John's, Halifax, Quebec, Toronto, Edmonton and Victoria. In collaboration with the Branch, personal visits were made to 626 statistically selected recipients of Old Age Security and Canada Pension Plan benefits across the country to verify their existence.

12.139 During our audit, we observed that the Branch places great stress on the quality and level of service provided to the public. Branch personnel emphasize the provision of courteous, co-operative and efficient service to program recipients.

Benefit Payments and Controls

12.140 As part of the audit, we examined controls over the determination and processing of benefit payments in the Family Allowances, Old Age Security and Canada Pension Plan programs. We concluded that EDP and financial controls over the determination and processing of benefit payments are adequate. However, there are weaknesses in procedures for verifying continuing eligibility for benefit entitlements. Although our detailed audit tests did not reveal any significant errors in payments of benefits to recipients, there is, in our opinion, potential for the entry of unauthorized and fraudulent transactions into the system, both from internal and external sources.

12.141 This was generally the conclusion of our 1978 comprehensive audit. Since then, detailed internal audit reports on regional offices have made similar observations. Recent consultant studies commissioned by the Branch have also made similar comments.

12.142 The Branch has an established Benefit Control Unit with an overall objective "to confirm that benefits are paid only to eligible individuals and in the correct amount." Recent initiatives have been taken to provide for a more consistent and co-ordinated approach to benefit control across programs and across the country. As well, a study leading to the implementation of a post audit program is under way. We support these efforts.

12.143 Corrective action has also been taken in other areas, but many of the identified weaknesses continue. Although there are opportunities for improvement, action to implement audit recommendations has been slow. The Branch decentralization program announced in 1977 and modified in 1979, along with the reorganization and integration of major Branch components have been contributing factors. However, a Branch audit committee was recently established to ensure that all audit observations are adequately dealt with and progress is reviewed regularly.

12.144 **Determination of benefit entitlements.** Although we noted that procedures for the determination and calculation of benefit entitlements are generally satisfactory, procedures for verifying continuing eligibility for benefit entitlements contain some weaknesses.

12.145 Family Allowances. In the Family Allowances Program, birth verification is a major control to ensure eligibility for payment. For Canadian-born children, birth verification is accomplished by reference data supplied by the Bureau of Vital Statistics in the province of birth. In the case of foreign-born children, births are verified by reference to immigration documents.

12.146 Procedures for verifying birth information are inconsistently applied among the regions. We noted instances where security of birth verification information was inadequate, and access to it was not well controlled. Moreover, there is no systematic process for monitoring the follow-up of unverified births.

12.147 **The Income Security Programs Branch should ensure that birth verification procedures for Family Allowances recipients are being complied with. In particular:**

- **access to birth verification information should be restricted; and**
- **procedures for investigating unverified births should be monitored.**

> A national review of birth verification procedures followed across the country will be conducted, national standardized procedures concentrating on the existing areas of concern will be strengthened and an operational bulletin issued to ensure implementation. Adherence to the procedures will be monitored by the Benefit Control Unit on an on going basis and by our periodic management review.
>
> Procedures for investigating unverified births will be monitored by our Benefit Control Units on an on going basis and by Management review on a scheduled periodic basis.
>
> This process will be completed in the 1983-84 fiscal year.

12.148 When a child under 18 earns taxable income, benefit payments are cancelled. Where a child earns such income, the Branch relies on official notification from the family. Knowledge of this requirement by the recipient is therefore necessary if overpayments are to be avoided. The Branch does, from time to time, inform recipients of these eligibility requirements; however, this has been done sporadically. Based on the most recent information available from the Department of National Revenue-Taxation, 34,000 individuals of 17 years and under, and 91,000 individuals who turned 18 during the year reported taxable income in 1979. Because of the significant number of income earners, it would appear appropriate to inform recipients of these eligibility requirements on a regular basis.

12.149 To ensure that only eligible recipients continue to receive benefits under the Family Allowances program, the Income Security Programs Branch should ensure that Family Allowance recipients are aware of income restrictions.

> The Branch is developing an information package for recipients of all our programs which outlines the rights and responsibilities with respect to receiving benefits from Family Allowance, Canada Pension Plan and Old Age Security/Guaranteed Income Supplement and Spouses Allowance. The first part of this package consisted of a cheque insert in the April 1982 cheque issue entitled, "Your Rights and Responsibilities". This included the income restrictions. In addition, the feasibility of issuing special computer generated messages dealing with income restriction will be investigated and recommendations developed concerning implementation. This will be completed in 1983-84.

12.150 Old Age Security. In general, applications for Old Age Security benefits, Guaranteed Income Supplement, and Spouse's Allowance are received by mail at the regional offices. They are reviewed for evidence of birth, amount of entitlement, residence requirements, and account status before entitlement is approved. Death lists from provincial Bureaux of Vital Statistics are reviewed for change in status of the beneficiary.

12.151 The results of our tests confirmed the existence and identity of the recipients of Old Age Security benefits included in our sample.

12.152 In our opinion, while procedures for monitoring benefit entitlements of Old Age Security recipients are adequate, the Branch has not established satisfactory procedures to ensure that all recipients of the Guaranteed Income Supplement and Spouse's Allowance are entitled to payment.

12.153 This could be of major significance in view of the amounts of money involved. In 1981-82, payments for Guaranteed Income Supplement and Spouse's Allowance amounted to $2.3 billion and $206 million respectively. The payment of both these benefits is dependent on the income level of the recipient. Applications for these benefits must be made annually.

12.154 The application of procedures for the verification of income levels of these recipients varies considerably among regions, and is dependent on a number of factors, including, from time to time, the amount of resources available. Not all the recipient population is subjected to verification. Moreover, in those cases where overpayments are identified, recoveries vary substantially.

12.155 The Income Security Programs Branch should standardize procedures, for implementation in all regions, for verifying income of recipients of Guaran-

teed Income Supplement and Spouse's Allowance and recovering overpayments. These procedures should:

- **ensure that the total recipient population is subjected to verification; and**

- **monitor criteria for investigating overpayments, such as minimum dollar value.**

At the present time income verification is limited by the ability to match records with Revenue Canada Taxation. The following factors bear upon this limitation:

- not all beneficiaries have Social Insurance Numbers;

- not all beneficiaries file income tax returns;

- resources to follow up on reported discrepancies.

The Branch Benefit Control Unit is being expanded to conduct analysis of overpayments including causes, recovery and preventive measures. Units are being set up in each region with a central unit in Ottawa to develop procedures and monitor results. The skeleton of the Benefit Control Unit is in place and is being organized into a more effective unit within existing resources by redefining roles and responsibilities and providing the organization structure to do the job. A Treasury Board submission has gone forward to identify the programs required to meet control weakness in our payments systems and seek resources to strengthen those areas. Future activity will depend on the outcome of this submission.

12.156 Canada Pension Plan. The Branch maintains a computerized record of earnings system which is a permanent record of all contributions made by each contributor to the Canada Pension Plan, together with the related earnings information of the contributor. In 1981, this system contained 14 million accounts.

12.157 Because the amount of a Canada Pension Plan benefit is based on information contained in the record of earnings, we examined records of 600 recent pension recipients to determine the accuracy of these records. There were no significant errors. Moreover, the results of other tests confirmed the existence and identity of Canada Pension Plan recipients included in our sample.

12.158 We did note that refunds of contributions are not taken into account when calculating benefit amounts under the Plan. The policy to exclude refunds was adopted by the Branch in the early 1970s because of inaccurate and incomplete information in the record of earnings. The difficulties were mainly resolved in 1972; thus, this policy is no longer appropriate and should be discontinued. In 1981-82, this situation resulted in an estimated $7 million in overpayments to recipients. Although this represents less than one-third of one per cent of benefit payments for that year, the amount has been increasing each year.

12.159 **The Income Security Programs Branch should include the effect of Canada Pension Plan contribution refunds in the determination of benefits.**

> A project is under way which will ensure that as of January 1, 1983 all Canada Pension benefits effective commencing with that year reflect the use of valid refunds in the calculation of benefits.

12.160 Existing systems and procedures for determining continuing eligibility of retirement and surviving spouse's pensions require improvement. Specific weaknesses include the failure to use death lists provided by provincial Bureaux of Vital Statistics for the purpose of ensuring that the death of pensioners is reported to the Canada Pension Plan, as is done in the Old Age Security program.

12.161 **As part of its program to determine continuing eligibility of Canada Pension Plan beneficiaries, the Income Security Programs Branch should establish procedures to match provincial death lists against lists of beneficiaries.**

> The Branch will establish procedures to match provincial death lists against lists of beneficiaries as part of the continuing eligibility program. This requirement has been recognized during a review of control programs necessary within the payment system. It was addressed by an internal review in developing the need for benefit control, by a Branch study on Program Control requirements and by an outside consultant study on EDP Controls. These two studies were carried out between October 1981 and July 1982. As a result this recommendation along with many others has been incorporated in the Benefit Control activity for 1982-83 and future years.

Long-term Financing Arrangements - Canada Pension Plan

12.162 Since 1977, this Office has commented on the need to develop long-term financing arrangements for the Canada Pension Plan. The action being taken by the federal government to address this matter, and our comments thereon, are contained in Chapter 15.

Performance Measurement Systems

12.163 The Branch performance measurement systems cover approximately 2,300 person-years or 80 per cent of the Branch's resources. These person-years are engaged in clerical, administrative, counselling, benefit delivery and other related operations. Many of these operations are routine. Hence, productivity measurement is central to achieving sound control over efficiency in these operations.

12.164 The Branch operates two distinct performance measurement systems to measure productivity. They are:

- **the national performance measurement system:** Covering all regions and programs, this system was developed in the early 1970s as part of a Treasury Board initiative to have departments support budget submissions with performance data. The system today covers all person-years utilized in Income Security Programs. Reports include productivity measures, quality and level of service indicators. The data are used as a basis for regional office support of budgets as well as monthly monitoring of performance. Performance information from this system has been included in the 1982-83 Estimates.
- **regional time and production reporting systems:** These are operated and maintained in the regions at regional management discretion. These systems have their origins in the 1960s when the Branch used work measurement and production and time reporting for labour productivity management. They were designed to suit the control needs of operating managers. Today, parts of these systems are in operation in some regional offices in some programs.

12.165 As part of an overall departmental initiative to improve performance measurement systems, Branch management is currently taking major steps to review and revise these systems through a national project with substantial regional input.

12.166 **Audit scope.** Using audit criteria developed by our Office, we evaluated both the national and regional performance measurement systems to determine whether they:

- used accurate and relevant measures of productivity;
- used appropriate standards for measuring productivity;
- tailored reports to management needs;
- used performance data to improve efficiency; and
- kept productivity measures and reports current.

12.167 **National performance measurement system.** The national system has a number of good features such as well defined inputs, level of service and quality indicators. It also provides useful information to senior management in forecasting and monitoring human resource utilization. However, while inputs are relevant, accurate and generally well allocated to programs, output measures are not fully representative of work performed. Total account volume (that is the total number of individuals receiving benefits) weighted to reflect differences in work effort involved is used as the measure of output. However, the ratio of accounts maintained and accounts created to total accounts can vary significantly from period to period. Thus, this measure does not, in our opinion, adequately represent the amount of work done during each period.

12.168 The system provides service level and quality indicators, such as processing time for new applications and numbers of cheques returned. However, the quality aspects of some important tasks are not measured.

12.169 **Regional time and production reporting systems.** Although information in these systems is well suited to operating management needs, little maintenance and development work has taken place in the recent past, with the result that there is no systems documentation and systems are inconsistent in format and content between regions. Production items are not consistently counted, and dissimilar outputs are inappropriately aggregated, resulting in inaccurate measures of total workload. Moreover, there is no clear understanding of how some items of production are to be counted, and the systems do not use current performance standards.

12.170 In revising its performance measurement systems, the Income Security Programs Branch should ensure that:

- **output measures are more representative of work performed;**
- **productivity standards used for comparison are properly established and are updated as processes change significantly;**
- **service level and quality indicators are developed for all important work tasks; and**
- **regional systems are consistent and provide accurate measures of total workload.**

The entire functional/task classification is currently under review. The functions for which representative output measures and quality and effectiveness indicators are required will be selected this year (1982-83). Statement of requirements for the changes to existing systems and for the development of new ones are to be completed by June 1983. Systems modifications and development will be done on a progressive basis from July 1983 to March 1985. This applies to regional as well as national systems.

> Work is in progress for the development of representative production standards in one Area (Ontario with assistance from Headquarters staff). A workstation model has been created, work simplification techniques applied and production standards are now under development. It is expected to apply the results of this study to the entire Area during 1983-84, for one program (OAS). Development and application of updated production standards will be extended to other areas and other programs progressively over the next three to five years. This activity has been incorporated as a goal in the current Program Operations long-term plan.

12.171 **Productivity improvement.** Productivity targets are set nationally through the annual planning and budgetary process. Within prescribed operational frameworks, the implementation and the achievement of these targets have been left to the discretion of regional directors. However, there is no formal process of ensuring that individual initiatives to improve efficiency are appropriate and, where they are, are communicated to other regions other than through regular management meetings.

12.172 As a result, the amount of attention paid to routine efficiency improvements such as work simplification, systematic office and workplace layout and methods engineering, varies considerably. While broad national operational guidelines are issued centrally, the discretion granted to regional management has resulted in different processing methods in some offices.

12.173 **The Income Security Programs Branch should make greater use of routine efficiency improvement techniques. These techniques should form part of the centrally directed productivity improvement program that would assess regional initiatives from the point of view of national implementation.**

> The necessary mechanism will be developed during 1983-84 for coordinating on a national basis the implementation of efficiency improvement techniques and their evaluation.

12.174 **A test of labour productivity.** Because productivity management is important in the Branch and because, in our opinion, existing systems do not adequately measure productivity, we included in our audit a test of labour productivity. The Toronto Regional Office was chosen for this test as it had one of the largest concentrations of clerical staff within the Branch.

12.175 We developed engineered standards and determined 1981 labour efficiency levels in the 21 Old Age Security processing units in the Regional Office for the period January 1981 to December 1981. Our findings resulting from this test apply only to those units measured.

Exhibit 12.5

DEPARTMENT OF NATIONAL HEALTH AND WELFARE
INCOME SECURITY BRANCH

LABOUR PRODUCTIVITY MEASURES
FOR OLD AGE SECURITY PROCESSING UNITS IN TORONTO REGIONAL OFFICE
1981*

	As Computed by	
	Office of the Auditor General	Branch National Performance Measurement System
January	65.1	137.8
February	76.0	180.0 [1]
March	72.6	179.5
April	64.6	89.7
May	75.9	119.7
June	71.8	111.3
July	49.4 [2]	114.9
August	76.9	116.0
September	75.0	113.5
October	73.7	109.4
November	84.4	109.4
December	71.9	110.8

[1] 1974-75 base year comparison. Effective April 1981, base year comparison was changed to 1979-80.

[2] Mail strike.

*In reviewing these two measures, the following should be noted:

- The Branch system measures increases or decreases in productivity for any period against productivity in a selected base period by means of indices. The index for the base period is taken as 100 per cent. Thus, the measure of 110.8 per cent for December 1981 indicates that labour productivity was 10.8 per cent higher than December 1980.

- Our Office measured labour productivity against engineered time standards which reflect expected times to accomplish relevant tasks. Thus, the December 1981 measure of 71.9 per cent measures productivity for that month against a standard which is expressed as 100 per cent.

12.176 Exhibit 12.5 provides details of the monthly levels of labour productivity calculated by the Office for these units and those computed by the Branch's national performance measurement system. While these measures generally move in the same direction, in months with significant changes in workload, the Branch system does not completely reflect changes in productivity.

Internal Audit

12.177 The Internal Audit Directorate has a staff of 31 professionals and, in 1981-82, its authorized budget was $1.5 million, including professional fees for audit work done under contract. The Director, Internal Audit reports direct to the Deputy Minister, who acts as Chairman of the Departmental Audit Committee.

12.178 The internal audit function generally meets the audit criteria established by the Office. Considerable progress has been made toward implementing all major recommendations arising from previous audits and from a performance assurance review carried out by the Office of the Comptroller General in 1980.

12.179 During our audit, we had close co-operation with internal audit and were able to place reliance on their work.

DEPARTMENT OF TRANSPORT -- SURFACE ADMINISTRATION

DEPARTMENT OF TRANSPORT -- SURFACE TRANSPORTATION PROGRAM

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13

DEPARTMENT OF TRANSPORT - SURFACE TRANSPORTATION PROGRAM

SYNOPSIS

13.1 The Department of Transport plays a major role in shaping the nation's transportation activities, and the Surface Transportation Program involves annual expenditures of over $900 million. Policies and programs for Surface Transportation often represent major long-term expenditures and affect the decisions of Crown and other corporations, provincial governments and individuals. Once commitments are made, changes to programs can be very expensive and difficult to implement. In developing high-profile programs, the need to consult and reach agreement with many parties with differing views is a significant factor.

13.2 Exhibit 13.1 illustrates the distribution of expenditures by activity and by expense category. Payments to Crown corporations make up more than 75 per cent of this program's total expenditures.

13.3 The National Transportation Act, the Railway Act, the Motor Vehicle Safety Act and the Railway Relocation and Crossing Act are the principal acts governing the operation of the Surface Transportation Program. The provision of certain ferry services is also part of the Minister's mandate as required under sections 31 and 32 of the Terms of Union with Newfoundland and the terms under which Prince Edward Island entered Confederation.

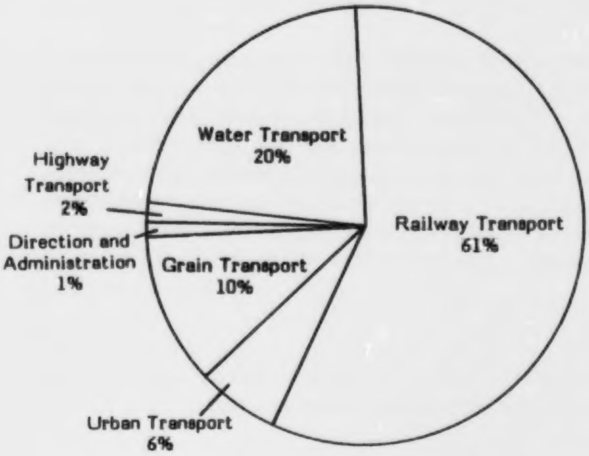
13.4 With the exception of the motor vehicle testing facilities, the Surface Administration neither owns nor operates major facilities. Rather, it contracts for certain transportation services which are required by statute, such as the Newfoundland ferries, or which represent federal obligations, such as the provision of freight and passenger services. It also makes significant grants and contributions for operating intra-provincial coastal ferries, transporting grain by rail and improving highway networks and urban transportation systems.

Railway Transport - Passenger Services

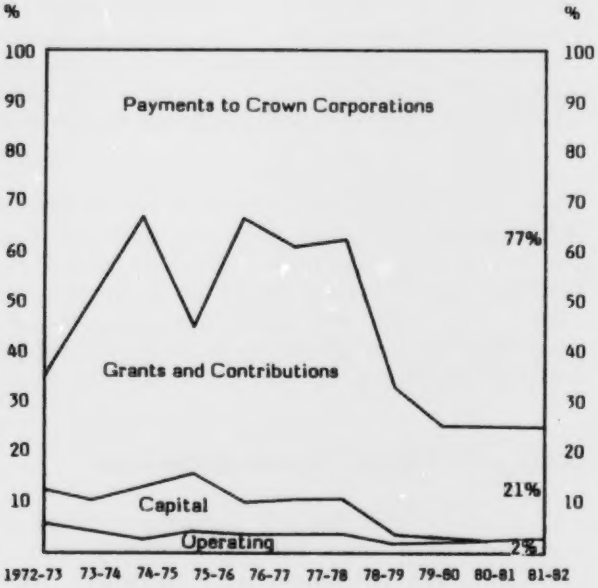
13.5 In the Railway Passenger Policy of 1976, the Government called for a comprehensive plan for rationalizing and revitalizing the railway passenger network. The objectives were to reduce subsidies by attracting more passengers and increasing revenue where there was a potential market and to cut government expenditures by eliminating, reducing or consolidating services where there was limited market potential. A primary concern was to reduce the amount paid by Canadian taxpayers to subsidize railway passenger services. This was to be achieved by rationalization and revitalization of the system.

Exhibit 13.1

DEPARTMENT OF TRANSPORT - SURFACE PROGRAM



Gross Expenditures by Activity 1981-82



Gross Expenditures by Expense Category 1972-73 to 1981-82

13.6 The railway passenger program was established to ensure the implementation of the 1976 policy. The direction to the Department was to accomplish this in a timely manner and with minimum disruption to the existing system. At that time there was insufficient appreciation of and attention to potential difficulties inherent in implementing such an expensive, complex, controversial and highly visible program. Subsequently, the Department states, a rationalization program that was assigned to the CTC yielded much more limited results than the Department had expected.

13.7 In spite of government efforts to reduce subsidization, expenditures are considerably higher than those envisaged when VIA Rail Canada Inc. (VIA) was established in 1977. Federal subsidies currently exceed $50 for each paying passenger. Operating losses are also considerably higher than envisaged in upward revisions of forecasts prepared by the Department in 1978 and 1981. It is highly unlikely that federal payments to VIA can be contained within the limits set by Cabinet in 1981 when major service cutbacks were ordered. Without these cutbacks, current losses would be even higher.

13.8 Although the 1976 policy was based on extensive studies, we found that in proposing it, the Department did not fully define the role of railway passenger services. Specifically, the Department did not ensure that necessary market assessments were made to provide a basis for determining the best ways of satisfying passenger needs regardless of the transportation method before the railway option was accepted over other competitive modes, such as buses.

13.9 After the 1976 Railway Passenger Policy statement had been issued, the responsibility and accountability for ensuring the successful implementation of the program rested with the Department. However, the Department points out that the main activities necessary to accomplish this were delegated by the Government to a number of organizations such as the Canadian Transport Commission (CTC) and VIA. The Department did not develop a comprehensive plan for implementing the railway passenger program. Specific objectives and responsibilities for the key participants involved in implementing the program were not defined appropriately. As a consequence, participants' responsibilities continue to overlap to the detriment of overall accountability for the program. Even within the railway option, we found no evidence of any comprehensive operating plan for services to be provided based on factors such as traffic analysis, cost and revenue targets by route, fare analysis, and so on. As a consequence, there is an inadequate basis for planning and monitoring financial and operating performance.

13.10 When difficulties were encountered in implementing the program, major changes were made without thorough consideration of the consequences. For example, when VIA was established as a separate Schedule D Crown corporation, the Department did not assess how a continuation of the operating independence VIA had had as a subsidiary of CN would affect the Department's ability to control the program. This is particularly significant in view of the fact that 70 cents of every dollar of VIA's operating costs are reimbursed by the program.

13.11 Since the program's inception, its management has been hampered by lack of financial, operating and marketing information. Nevertheless, until very recently, the Department has not made use of information available from the CTC, an organization that has considerable experience and expertise in assessing the cost of operating and subsidizing railway passenger services. Once VIA had been set up, the Department did not enforce those clauses in its contract with VIA that required the company to provide it with timely information essential for controlling the program.

13.12 The responsibilities of the participants in providing railway passenger services have not yet been defined satisfactorily, estimates of financial costs of maintaining individual routes and providing related services have been consistently unreliable, the Department's ability to provide reliable data on VIA's current or future operations has been compromised, and there is no assurance that costs can be contained within prescribed limits. Although the Department is taking steps to improve its control over the program, there are a number of additional steps that will need to be taken before it is in a position to plan the program's implementation in the longer term.

13.13 The role of railway passenger services needs to be more precisely defined, particularly in relation to remote, corridor, transcontinental and regional services. Similarly, criteria need to be developed for assessing VIA's future performance, and strategies worked out for marketing, operating and, where necessary, cutting back or eliminating rail passenger services. Only then will it be possible to develop a program that recognizes the appropriate role of trains in passenger transport and clearly defines the responsibilities of the program's major participants. It is important to note that an assessment of whether rail services are the best way of satisfying the travelling public's needs should include the possibility that they may not be justified when compared with competing modes of transportation.

Water Transport

13.14 Agreements with Canadian National (CN) regarding some $535 million in federal subsidies to cover CN Marine's operating deficits are not providing sufficient financial control; there is a lack of adequate information for assessing the economy and efficiency of CN Marine and for negotiating the amount of federal payments to the company. We also found serious weaknesses in the control over payments to CN for CN Marine's capital expenditures. For example, in 1980, CN Marine was provided with $25 million from the Consolidated Revenue Fund long before the money was paid by the company to the builder of the vessel, M.V. Abegweit.

13.15 There are a number of questions about the propriety of this transaction. We could not discover what net benefits to the Crown were foreseen at the time these funds were advanced; why CN Marine invested these funds in a special bank account in the name of the shipbuilder, in trust for itself, without the Department's knowledge; and why $163,000 was paid by CN Marine to the shipbuilder from this trust account. The total cost of the vessel is under dispute and its exact date of delivery has yet to be determined.

13.16 Although contract audits were carried out, we noted that CN Marine has resisted the Department's efforts to audit the economy and efficiency of company operations. In the absence of any cost or other appropriate standards to measure CN Marine's operating performance, the Department has no satisfactory way of knowing whether it is subsidizing only the costs of "properly managed" services, as directed by Cabinet. Thus, there is no independent assurance that the Canadian taxpayer is getting full value for money or whether the establishment of CN Marine has in fact led to the improvement in financial control envisaged by Cabinet when the company was set up.

Grain Transport

13.17 Activities relating to grain transport have been developed as interim measures in an atmosphere of uncertainty about the future of the Crowsnest Pass Rate. The Government decided to initiate the prairie branch line rehabilitation program in June 1977 without adequate planning. First, the Department did not document the financial implications of not arriving at an agreement with the railways on who would be responsible for timely maintenance of the branch lines following their rehabilitation at the taxpayers' expense. We were informed that the railways have not accepted unconditional responsibility for expenditures on future maintenance. Second, the Department did not consult with the Canadian Transport Commission in time to determine how the introduction of this new program could affect branch line subsidies that the CTC was already required to pay under the Railway Act. The potential for additional subsidies could add substantially to the government's costs. This matter was not considered and therefore not highlighted in documents submitted by the Department to ministers. The railways have already claimed some $50 million from the CTC for such benefits. These claims have been disallowed. However, one of the railways has asked the Federal Court of Appeal for leave to appeal. Third, the Department did not determine by pre-inspection the existing condition of the lines or investigate the options for construction standards and specifications most appropriate for rehabilitating these lines before signing agreements involving $240 million of contributions under this program. Some of these difficulties are now being resolved in more recent agreements.

13.18 So far, $318 million has been incurred on this program. Independent auditors and engineers were appointed in 1981 to audit, inspect and certify the work done since 1977 and the claims made by the railways. The auditors, who acknowledged the difficulty of carrying out reviews years after the work had commenced, did not find evidence of failure to meet engineering standards or of improper use of funds. However, they have not yet provided explicit assurance to the Department that the improvements made to the branch lines were the most appropriate, or that the work was completed in a cost-effective manner. We believe that the Canadian taxpayer is entitled to such independent assurance.

13.19 The Department has not completed the development of satisfactory procedures for determining the extent to which this program, as opposed to existing and evolving alternatives, contributes to improving the grain transportation and handling system.

Highway Transport

13.20 **Highway development in the Atlantic Provinces.** A substantial proportion of the expenditures for Phase I of the Atlantic primary highway strengthening program was not directly related to one of the program's Cabinet-approved objectives of establishing uniform truck load limits in the Atlantic provinces. Before the start of Phase I, allowable truck load limits in one of the provinces were already at the specified level. This was not formally brought to the attention of Cabinet when it was asked to approve the program. Further, studies conducted at the end of Phase I to evaluate the economic benefits, in terms of an increase in the efficiency of trucking operations, that actually resulted from the $100 million federal contribution to the first phase of this program were based largely on estimated, as opposed to actual, efficiencies achieved. Approximately $1 million was spent on evaluations of Phase I projects by the provinces. These evaluations show a number of economic benefits derived from the highway investments. The multi-modal transport studies required by Cabinet as a precondition to Phase II of the program have not all been completed by the Department. The Department states that truck operating cost savings were estimated in retrospective studies but the data required to formulate a reliable estimate of freight rate savings were not generated due to resource constraints. The latter savings can be inferred on a non-quantifiable basis from the upward changes in truck fleet composition.

13.21 Phase II expenditures of $84 million are expected to be offset by savings in certain freight subsidies by modifying the regulations applicable to the Atlantic Region Freight Assistance Act. This Act is administered by the CTC. Phase II highway projects have been approved without appropriate prospective cost-benefit analyses. Further, it will be necessary for the Department to monitor the actual savings in freight subsidies administered by the CTC in relation to actual Phase II highway development expenditures. Such monitoring of expenditures is essential for ensuring compliance with the Cabinet requirement of a fixed expenditure envelope.

Multi-modal Planning

13.22 This kind of planning entails examining all applicable modes of transport, such as air, bus, truck, train and so on, in order to allow for the choice of the mode or combination of modes that will provide the most appropriate method of meeting a transportation need.

13.23 We found a number of instances where the Department had not included an analysis of multi-modal factors in its proposals to the Minister. The railway passenger program is a clear example. Thus the Department has no assurance that it is "making the best use of all available modes of transportation at the lowest total cost ..." as directed by the National Transportation Act.

Role of the Senior Financial Officer

13.24 Major programs have been developed without the Senior Financial Officer (SFO) having either assessed or advised on their financial implications. Similarly, the SFO's involvement has been minimal both in specifying financial controls required for implementing the programs and in commenting on the manner in which program managers have monitored their financial results.

13.25 Although the role and responsibilities of the SFO have been adequately defined, we found that the role has not been fulfilled in the case of the Surface Transportation Program.

Measuring and Reporting Program Effectiveness

13.26 The responsibility for program effectiveness evaluation was assigned to an Evaluation Branch by the Deputy Minister in 1975, but no program effectiveness evaluation studies of major Surface Transportation programs have been completed. Similarly, although the Branch was given responsibility for ensuring the establishment of performance measures, including indicators of effectiveness, satisfactory measures have not been developed for Surface Transportation programs.

13.27 Initiatives were taken during 1981 to meet Office of the Comptroller General guidelines for establishing the organization and planning for program evaluation. The success of these efforts in generating satisfactory measures of program effectiveness has yet to be demonstrated.

Internal Audit

13.28 The work done by internal audit in the Department was too limited in scope to be of value in relation to our examination. The group had not audited the significant program components of the Surface Transportation Program. For example, management controls relating to railway passenger services or water transportation assistance had not been examined during 1978, 1979, 1980 or 1981. These activities account for over $675 million in annual expenditures.

13.29 Audits that were conducted primarily addressed administrative and support systems. Audit reports did not highlight important findings for the Deputy Minister's attention and, in certain instances, insufficient evidence was collected to support findings.

Audit Scope

13.30 We examined the planning for major programs. In examining the adequacy of information for decision-making, we paid special attention to the Department's analysis of how one kind of transportation affects another. We also assessed whether relevant factors, such as costs, benefits and effects, have been identified, analysed and compared, and, where appropriate, feasible alternatives identified for ministerial review. The Privy Council Office Guidance Manual for the Preparation of Discussion Papers and Memoranda to Cabinet provided criteria for our examination. This manual outlines the responsibilities of officials for ensuring that the minister or ministers concerned are provided with objective information on all reasonably feasible options to enable them to make an informed judgement on the cost of satisfying relevant social and economic objectives.

13.31 Since most of the Surface Transportation Program expenditures are made through operating contracts and grants and contributions, we examined whether the Department negotiates agreements in accordance with the approved objectives and with due regard to economy and efficiency. We assessed the adequacy of the management system for implementing programs, including financial controls, performance verification/inspection and audit. In particular, we reviewed the way the Department administers its contracts with Crown corporations. Parliament has authorized appropriations for the Department to make payments to such corporations for the provision of certain services. The Department thus has an obligation to account for its expenditures of funds from the Consolidated Revenue Fund to ensure that the affairs of the Government are being administered in the best interests of the taxpayer.

13.32 Reporting on a program's results is essential to ensuring accountability and enabling ministers to revise programs where necessary. We examined the adequacy of the procedures for evaluating the effectiveness of the Surface Transportation programs.

13.33 In the case of Grain Transport, we did not examine in detail the arrangements made or the justification for leasing as opposed to buying the 2,000 hopper cars that the Department had acquired in 1980. These leasing arrangements were made by the Canadian Wheat Board, acting as agent for the Crown. In addition, we did not examine the office of the Grain Transportation Co-ordinator because we were informed by the Department that the Co-ordinator reports direct to the Minister of Transport.

13.34 The audit was conducted in the Department of Transport. In certain cases involving Crown corporations, we requested information from the external auditors of Canadian National.

Observations and Recommendations

Railway Transport

Railway Passenger Program

13.35 **Railway Passenger Policy of 1976.** During the mid-1970s the Department of Transport undertook an extensive review of transport policy. In 1975, the Government tabled its transportation policy in the House of Commons. In January 1976, the Government agreed that:

> the Minister of Transport be authorized in principle to propose 100 per cent subsidy upon an as-and-when required basis for application, subject to Treasury Board Approval, to new or rationalized passenger rail services forming part of the revitalized network when it is put into place and consistent with the implementation of adequate controls and incentives to ensure efficiency in management and operations.

13.36 The following objective was set out in a related directive:

> The objective should be to seek the best method of satisfying passenger requirements regardless of mode and, in particular, to be guided by the following specific principles:
>
> (a) substantial reduction in present levels of subsidy to rail passengers and a much greater degree of economic self-sufficiency in operations should be achieved...
>
> (f) rail fares charged should reflect the need to improve commercial viability and reduce subsidy levels; costs of improvements in quality and reliability of service should be reflected in pricing policy....

13.37 The Railway Passenger Policy was tabled in the House in January 1976. In it, the Government identified categories of services, assessed the historical and future costs of services and considered improvements for planning and delivering these services. After the 1976 Railway Passenger Policy statement, the primary responsibility for ensuring the successful implementation of the program was given to the Department. The main activities necessary to effect the program were, however, assigned to a number of organizations, such as the CTC and VIA.

13.38 At the same time, the Minister of Transport directed the Department to initiate and ensure the development and implementation of a comprehensive plan to rationalize railway passenger services in Canada. The rationalization was to be undertaken by the CTC. The plan was intended to reverse two trends -- the declining use of railway passenger services and the increasing subsidies needed to operate them. In a policy announcement, the Minister of Transport defined four priorities:

- services to remote locations were to be maintained;
- services in high population density corridors were to be improved to respond to potential market demand;
- transcontinental services were to be rationalized; and
- regional services were to be reduced.

13.39 The overall aim was to ensure the development of a comprehensive plan that would lead to a reduction in federal subsidies through rationalizing and revitalizing the railway passenger network.

13.40 **Rationalization.** The broad objectives set out in the 1975 policy were to be accomplished by eliminating, reducing or consolidating services. The process chosen for implementing the policy placed considerable reliance on CTC hearings which, the Department points out, fell short of its expectations reflected in the 1976 policy. Neither the process nor the hearings achieved the results expected. For example, a CTC plan for a rationalized network of services between the Maritimes and central Canada did not suggest eliminating duplicate services as intended. This plan, which was to be developed in 1977, was not finished until June 1979. The failure to rationalize the services in a timely manner was one of the factors that led to the Cabinet decision in 1981 to limit government funding for railway passenger services, which in turn led to significant service cutbacks and route restructuring.

13.41 **Revitalization.** Another element of the 1976 policy was the need for an integrated management group whose sole job would be to manage railway passenger services. This concept was a considerable departure from existing arrangements, which merely required the CN and Canadian Pacific (CP) to fulfil a minimum statutory obligation to provide railway passenger services. Initially, CN and CP were asked to develop a joint approach to managing services, and VIA was established in 1977 as a subsidiary of CN. However, the railways failed to agree on the arrangements for jointly managing the passenger service. The Crown then purchased VIA shares from CN and amended the Financial Administration Act to include VIA as a Schedule D Crown corporation.

13.42 VIA was envisaged as the instrument for planning, managing and operating railway passenger services in Canada. CTC would make regulatory decisions, and VIA was to provide passenger services of a given type, quality and level, according to service contracts between the corporation and the Minister of Transport. The service contracts specified the terms and conditions under which government payments would be authorized.

13.43 **Inadequate definition of a role for railway passenger services.** The role of railway passenger services in relation to other forms of transportation has not been adequately defined. Specifically, in proposing a role for these services, the Department did not fully address the transportation policy statements tabled in the House of Commons in 1975 and 1976. The policies required that the Department determine the best way of satisfying passenger needs, regardless of transportation method, before accepting the railway option over others. Although the rationalization process that the CTC undertook considered alternate available means of transportation, it did not prove to be an effective method of meeting this requirement.

13.44 The Department has not ensured that an independent market assessment was carried out either before VIA was established or since, to determine the viability of specific railway passenger services. For example, it has not adequately assessed the extent to which railway passenger transport can compete on various routes with other modes of transportation, such as bus, airplane and private car. Such an assessment would allow the Department to provide advice for decisions to be made to eliminate, change or improve routes at the best time and according to an orderly plan that recognizes the role of other modes of transportation.

13.45 **Initial planning.** Most of the initial planning for the implementation of the railway passenger program took place in 1975 and 1976. A sound approach for implementing the program had not been defined before VIA was created and designated as the key vehicle for delivering the program. The Department's planning of how VIA would deliver a railway passenger service was inadequate. We found no evidence of a specific plan that took into account either the objectives of the Railway Passenger Policy of 1976 or the needs of the program in terms of resources and interdepartmental consultations necessary for satisfactory implementation. There was no evidence in the Department of plans by VIA or the Department to address budget issues, operating workloads and other control and administrative procedures necessary to identify the information needs of the participants and correct problems as they might arise during implementation. Important factors, such as traffic analysis, cost and revenue targets by route and fare analysis, were not addressed. In addition, there is little evidence in the Department that capital requirements were properly estimated by VIA on the basis of their costs and benefits to the program. Finally, the Department did not develop specific criteria for monitoring VIA's performance or evaluating the program.

13.46 VIA was originally set up as an experiment, with the expectation that its progress would be closely monitored and controlled. However, the company was allowed by the Department to plan its own direction without adequate reporting and control arrangements, a step that was not in keeping with VIA's "experimental" status.

13.47 In essence, a substantial independent mechanism for managing railway passenger services was in place before a rationalized route structure had been determined or its long-term capital requirements assessed. Under these conditions, the Department's ability to set and impose specific objectives for VIA, develop criteria against which to judge the company's performance and, finally, to influence the direction of the program, was compromised.

13.48 **The railway passenger program today.** Annual operating and capital expenditures on this program exceed $506 million. They account for more than half of the Surface Transportation Program's annual appropriations. Providing railway passenger services is one of the government's most visible and controversial activities; it is likely to remain so in the future. Federal subsidies currently exceed $50 for each fare-paying passenger. This represents 70 cents of every dollar that VIA spends.

13.49 **Failure to reduce subsidies.** The Department's efforts to reduce subsidies by rationalizing and revitalizing railway passenger services have not been successful. Annual subsidies for services provided by VIA are now double the $240 million ceiling imposed by Parliament when it approved the establishment of VIA in 1977. Operating losses have also been considerably higher than the amounts Cabinet expected in 1978 and the $506 million ceiling for operating and capital funds set in July 1981, when major service cutbacks were ordered.

According to the Department's reports to ministers in 1978, operating losses for 1981 were expected to be $288 million in 1981 dollars. However, actual losses for 1981 were at least $399 million. This represents an underestimate for the year of $111 million.

13.50 The Department considers the major problem in forecasting the costs of subsidizing railway passenger services to be the rate of escalation in railway costs. These are higher than the rates used by the Department for forecasting because it used Treasury Board approved inflation rates that were lower than railway industry inflation. Also, the Department points out that there was a lack of government control over VIA's workload and the demand for services that this places on CN and CP. Our review indicates that other factors are also at work:

- Although revenues have increased, revenue growth from increased fares and ridership has fallen short of the objectives set in 1980 and 1981.
- VIA's overheads have grown considerably since it began operation. Some overhead increases were expected; however, VIA has not justified them adequately to the Department. Moreover, VIA has not indicated the extent to which these increased overhead expenditures have helped either to reduce operating costs or to increase revenues.
- Substantial capital expenditures have been funded without adequate analysis of expected return on investment.

13.51 The lack of adequate control over financial expenditures is reflected in the substantial supplementary funding throughout the history of the program. In addition, the 1981-82 expenditures exceeded the appropriations, as shown in the following table.

Fiscal Year	Main Estimates $000	Supplementary Estimates $000	Total $000	Actuals $000	Over (Under) $000
1978-79	$ 132,875	$ -	$ 132,875	$ 63,385	$ (69,490)
1979-80	234,000	111,650	345,650	341,451	(4,199)
1980-81	424,300	30,822	455,122	451,669	(3,453)
1981-82	399,200	107,021	506,221	540,618	34,397

13.52 This program has clearly not resulted in the expected reduction of federal subsidies, and its expenditures have consistently exceeded forecasts presented to the Minister and to Parliament. Further cutbacks may be necessary to contain costs within the ceilings presently imposed by Cabinet.

13.53 **Accountability and responsibility.** Accountability and responsibilities of specific participants in the program overlap. The Department informed us that VIA was established in a complex legal and regulatory environment that provides a number of individuals and groups with the right to intervene in the affairs of the program without direct accountability:

- The Canadian Transport Commission exercises its authority by virtue of the National Transportation Act and the Railway Act. It has jurisdiction over establishing minimum levels of service and tariffs (in case of public objection) without any accountability for the financial consequences.
- VIA has the status of a Schedule D Crown corporation and reports to Parliament through the Minister. As a result, VIA carries out its operations in an independent manner even though the Department pays 70 cents of every dollar of VIA's operating costs.
- CN and CP, which own the track and roadbed, provide VIA Rail with various services. Charges for these services represent a significant part of VIA's operating costs.
- Treasury Board and the Department of Finance exercise their authority by virtue of the Financial Administration Act. Treasury Board Secretariat plays a significant role in stipulating the rate of escalation it allows for program costs.

13.54 Thus, the Department of Transport has not been in a position to control the process of decision and change required for the program to meet its objectives and related financial targets. Resolving the question of each participant's accountability and responsibility in relation to the program is critical to its success. The Department informed us that it is in the process of preparing a public discussion paper to form the basis for addressing the issue.

13.55 **Management information.** During the program's planning and implementation stages, there was insufficient financial, operating and marketing advice and information. The Department did not make use of information available from the CTC, an organization that has considerable experience and expertise in assessing the cost of operating and subsidizing railway passenger services. We found that the Department's own information on the costs and revenues associated with VIA's operations was inadequate. Regular performance reporting, as described in the Railway Passenger Services contract with VIA dated 20 April 1978, was unreliable in terms of timeliness, completeness and consistency. The contract states in Article 6.4d that:

> VIA shall provide such reports, at such times and containing such information as the Minister may require. These reports shall include but not be limited to: ...quarterly operating performance and financial reports within fifteen (15) days of the last day of every third month.

13.56 Our review showed that none of the payments by the Department for services provided by VIA since 1978 had been fully audited, although an audit of VIA's costs was under way at the time our audit ended. The need for such audits is critical in view of the fact that VIA's operating figures are difficult to accept at face value. For example, figures for the same quarter vary at times from report to report and changes are made without explanation. The Department has not obtained planned versus actual financial and operating information from VIA covering all the company's services for any one year. Certain other essential information is excluded altogether; for example, the number of passengers carried on each route or route grouping.

13.57 Such information is critical for assessing the overall demand for railway passenger services, estimating future funding requirements and monitoring the results of the railway passenger program. It is also essential for accurate estimations of the cost of maintaining many individual routes and providing related services. Because the appropriate information has not been available, estimates of the program's costs prepared by the Department have consistently been inaccurate. The Department has pointed out that Treasury Board's refusal to approve rates for forecasting cost escalation appropriate for the railway industry has contributed to its difficulties.

13.58 When VIA requests government funding for a capital expenditure, the Department has no satisfactory way of knowing whether it will be cost effective and whether VIA has included in the request all the extra, downstream costs associated with the original expenditure. For example, a purchase of high speed trains implies downstream costs for track improvements, maintenance facilities, and so on. Some significant capital expenditures have been funded without adequate knowledge of these substantial extra costs.

13.59 VIA has not provided the Department with any marketing studies that either support the company's revenue assumptions and projections or assess anticipated revenues, prices, service levels and user characteristics. Such studies are necessary for determining under what conditions, if any, the railway passenger system could be made viable.

13.60 In summary, the general lack of information has compromised the Department's ability to provide ministers with reliable information for decisions on significant matters such as route structure, service levels and VIA's capital and operating requirements. In addition, the Department has been unable to assure ministers that it can contain payments to VIA within either the government's ceiling or Parliament's annual appropriations.

13.61 It should also be noted that the Department has already begun work to improve its control over the program. Efforts have been made to obtain more information on VIA's costs and revenues, improve the information base for preparing estimates, and address the need for clarifying the roles and responsibilities of the program's key participants.

13.62 The significance and nature of the observations in this chapter indicate that major changes are required before the Department of Transport can bring the railway passenger program under adequate control. Accordingly, our recommendations focus on major areas that should be addressed by the Government as part of the task of establishing this improved control and of determining the future direction of the program.

13.63 The Department of Transport should seek government direction to ensure that:

- **the roles and relationships of the participants involved in implementing the railway passenger program are clearly defined;**
- **a precise role is defined in a multi-modal context for railway passenger services;**
- **an assessment of the market potential is made on a route-by-route basis and taken into account in any operational and regulatory decisions;**
- **strategies are developed for marketing, operating and, where appropriate, cutting back or eliminating services;**
- **a set of criteria is developed for measuring VIA's performance and evaluating capital requirements;**
- **responsibility is assigned for monitoring and evaluating all aspects of VIA's operations; and**
- **procedures are established to ensure more timely and informative reporting.**

The Department responds that a strategy and discussion paper are being developed to review the overall legislative requirements of the rail passenger program, including the roles and relationships of the various institutional participants. A management information and cost control system is under preparation in consultation with the three railway companies. The Department intends to conduct a multi-modal study in 1983 to assess the market potential for rail passenger services. Permanent resources are being allocated to program evaluation.

13.64 In our opinion, allowing VIA to continue to operate with its present high level of independence, without clearly defining both a role for railway passenger services in a multi-modal context and an accountability framework for all the participants of the program, entails a serious financial risk to the Canadian taxpayer.

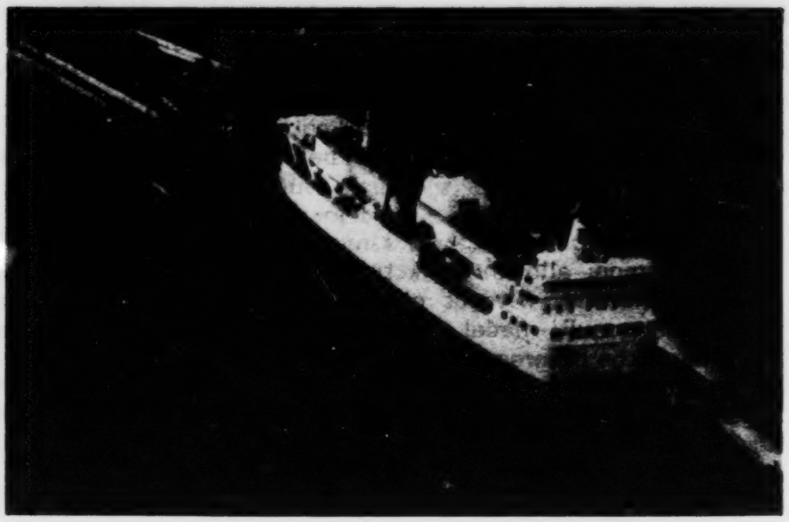
Water Transport

13.65 The Water Transportation Assistance Directorate administers a subsidy program that provides for ferry and coastal water linkages between other surface transportation modes. In 1976, Cabinet approved the Water Transportation Assistance policy, which identified the categories of services that could receive financial support. A variety of operators receive financial assistance, but because the greatest portion of the budget of the Water Transportation Assistance Directorate is devoted to CN Marine, the audit has been restricted to the arrangements between this corporation and the Department.

13.66 In our 1977 and 1978 annual Reports, we expressed serious concern about the federal government's lack of control over the money it was spending to subsidize the Atlantic ferry services operated by CN. The Department had been underwriting the deficits as calculated annually by CN. No formal agreement existed that would have allowed the Department to verify the deficits.

13.67 To provide a greater degree of control over the funds spent to cover these deficits, CN Marine was incorporated as a subsidiary of CN in 1978, and an agreement between the Minister of Transport, CN and CN Marine established the terms and conditions under which CN Marine would operate the Atlantic ferry services.

13.68 In 1981-82, CN Marine was paid $143 million to provide the ferry services. This figure represents 84 per cent of the water transportation program's expenditures. Total expenditures since 1979, when the company was set up, exceed $535 million.



Program Planning

13.69 In attempting to achieve the Department's objectives of providing water transportation assistance, the Water Transportation Assistance Directorate is continuously involved in planning both the levels of service to be provided and the methods of delivery. Within the terms of the tripartite agreement governing the operation of CN Marine for a five-year period, we found that the Department's annual planning was generally satisfactory.

13.70 The planning process includes rationalizing the program by clarifying and interpreting its objectives, negotiating with provinces and other interested parties to determine transportation needs, identifying alternative means of achieving the program's objectives, and making recommendations to the Minister of Transport.

13.71 The Department has reviewed rates on subsidized ferry services and has adjusted them so that any increases in operating costs are at least partly offset by increases in user fees. Levels of service on several ferry routes on the East Coast have also been adjusted in certain instances in response to either changing demand or the availability of other kinds of transportation. However, in the case of ferry services in the Bay of Fundy, the Department has not fully analysed their multi-modal implications. These services are currently costing Canada $14.3 million a year. The Department states that a complete evaluation of these services requires provincial participation. A federal-provincial transportation committee is addressing the multi-modal aspects of the services.

13.72 For some of the Fundy routes, there appears to be little sound economic reason from a transportation point of view for subsidization. For example, the automobile trip from Portland, Maine to Halifax is significantly more economical than is the trip by ferry and car. The road trip also takes less time. We noted that the federal government has no constitutional obligation to subsidize Bay of Fundy ferry services. This and other examples indicate that multi-modal factors need to be taken more explicitly into account by government in making its decisions. The Department has advised us that it is now making renewed efforts to consider multi-modal concerns.

Program Implementation

13.73 **Operating agreements.** Implementing the Water Transportation Assistance program involves negotiating and administering agreements, including those relating to capital budget requests, and making subsidy payments. Capital expenditures, especially those of CN Marine, can result in major commitments by the government for future subsidies.

13.74 When the Department negotiates contracts with companies for water transportation services, its primary concern is that a given level of service be provided at least cost to the Crown. The tripartite agreement between the Department, CN and CN Marine was based on the need to control expenditures and promote efficient and cost-effective management of the East Coast ferry services. It provided that the amount of subsidy payable to CN Marine would be negotiated periodically to cover the financial deficiencies of "properly managed services". In addition, it specified that performance measurement mechanisms were to be introduced to permit assessment of individual services and direct comparisons between services.

13.75 The tripartite agreement and the annual operating agreements with CN Marine for subsidizing the East Coast ferry services specify the roles and responsibilities of the parties involved, the levels of service and the terms, costs and conditions for payments. They also include mechanisms for periodic measuring and reporting on performance. Nevertheless, we have two major concerns.

13.76 First, there is a lack of information in the Department for assessing the economy and efficiency of CN Marine. Subsidies are based on the net cost of operations for the year ended 31 December 1978. However, the Department did not assess the economy and efficiency of CN Marine for the base year, 1978, to determine whether this represented a reasonable level of economy and efficiency before signing the agreements. Data on CN Marine's current performance, such as cost of operations per mile, indicate that the costs of its ferry service are much higher than those of other ferry operators. These services may not be similar in many respects. If this is so, the Department needs to develop other ways of assessing the economy and efficiency of CN Marine's operations. The Department does not have adequate information, nor has it been able to independently audit the economy and efficiency of the company's operations since 1979.

13.77 CN Marine provides financial and operating reports and budgets which give certain information. However, the Department has not developed performance standards for major cost components of the company's operations, such as labour, fuel and maintenance. Standards are essential if the Department is to measure route performance. Without this kind of information, or a comprehensive audit of the company's operations, the Department has no independent assurance that it has been subsidizing only the costs of "properly managed" services as directed by Cabinet.

13.78 **Standards and reporting systems should be developed that would allow the Department to assess the efficiency and economy of CN Marine's operations.**

> The Department responds that performance indicators are being developed on an individual service basis. Widely dissimilar climatic and operational characteristics preclude effective inter-service comparisons. The Department has compiled an information base for use in the development of service performance indicators.

13.79 Second, negotiations between the Department and CN Marine to determine the subsidies to be paid to the company are based on budgets. The audits carried out by the Audit Services Bureau (ASB) on behalf of the Minister of Transport are based on actual expenditures. As a result, understatements in reported net income of $4.6 million disclosed by the ASB audits do not affect the amount paid to the company. This understatement represents 27 per cent of reported net income for the period 1979 and 1980. The nature of the understated income indicates that a portion of the earnings retained by the company over the approved profit allowance resulted from reasons other than improved performance. This, and the fact that the agreements do not oblige CN Marine to repay any excess profits, prevent the Department from taking full advantage of the audits.

13.80 **The Department of Transport should ensure that future agreements with CN Marine contain provisions requiring pre-negotiation audit of current years' operating data and adjustment for any errors in budgeted figures detected by subsequent audit of actuals.**

13.81 **Funding capital acquisitions.** The Department agreed, in the tripartite agreement, to contribute $143 million as needed over a five-year period toward the cost of CN Marine's capital projects. Requests for these funds are included in CN's annual capital budget tabled in Parliament, and the funds are provided through annual appropriations. To transfer the funds from CN's capital budget to CN Marine, the Department purchases shares in CN, which in turn purchases shares in CN Marine. The agreement requires that the Minister of Transport is satisfied with the form and timing of each capital project so assisted, such as the construction of a ferry, and that the project is needed to enable CN Marine to deliver the water transportation services contracted for. The Minister must also be satisfied that the contribution of capital funds requested for the project is justified.

13.82 We found that the Department paid some $25 million from the Consolidated Revenue Fund to CN Marine for up-front payments to the builder of the ferry M.V. Abegweit for the stated purpose of achieving savings of $2.9 million in anticipated cost escalations. However, we found no documented evidence that the cost to the Crown in advancing this money was taken into account in projecting these savings. Drawing on the Consolidated Revenue Fund in advance of proven need to reduce the reported cost of a capital item is a highly unusual practice.

13.83 Furthermore, we found that CN Marine did not advance the $25 million to the shipbuilder, as the Department assumed it had. Instead, CN Marine placed the funds in a special bank account in the name of the shipbuilder, in trust for CN Marine. The Department has subsequently learned that the $4.8 million interest earned was offset against the capital cost of the vessel. The Department was also unaware that CN Marine had paid the shipbuilder $163,000 for consenting to this arrangement.

13.84 We were unable to find out either why CN Marine opened this account or why it had agreed to pay this money to the shipbuilder. We raised the matter with the Senior Financial Officer of the Department, who is a member of the Board of Directors of CN Marine. In accordance with an arrangement with the Chairman of CN, we requested information from CN Marine's external auditors to confirm and clarify the events associated with establishing the trust account and paying $163,000 to the contractor. To date we have not received a satisfactory explanation or information on these matters. The Department has advised us that it is pursuing this matter with the president of CN Marine.

13.85 Until we have explanations of the following four points, we cannot form an opinion about the propriety of the transaction:

- we cannot assess the benefit to the Crown from these arrangements; although various documents indicate that funds were advanced to reduce escalation costs, we found no evidence that the cost of the money advanced was taken into account in projecting the savings of $2.9 million;
- the benefits or other reasons for paying $163,000 to the shipbuilder from the trust account remain unclear;
- we do not know why CN Marine deposited the $25 million in a separate trust account in the name of the shipbuilder, in trust for CN Marine; and
- we are concerned about the appropriateness of offsetting $4.8 million in interest income against capital costs of CN Marine and about the lack of full disclosure to Parliament.

The total cost of the vessel is in dispute and the exact date of its delivery has yet to be determined.

13.86 **Capital acquisitions through leasing.** Our examination revealed an example of a leasing agreement that could result in the acquisition of a capital asset by the company without appropriate approvals. CN Marine entered into a charter agreement for the M.V. Astron that will cost the company a minimum of $878,000 a year, plus escalation for inflation. If the company cancels the lease, it must purchase the vessel at the greater of its net book value or its fair market value. This agreement could result in the government funding the acquisition of a large capital asset for a Crown corporation without prior scrutiny by the Department, the Minister or Parliament. Acquisition of a capital asset without prior government approval contravenes the policy on capital expenditures of wholly-owned Crown corporations.

13.87 **Operating agreements with CN Marine should require that the corporation obtain the Minister's approval before entering into leases that could result in the acquisition of a capital asset.**

The Department responds that the operator has been made aware of the requirement to secure approval for the acquisition of capital assets through leasing.

Monitoring Results

13.88 By monitoring the results of the water transportation program, the Department can assess not only whether it has met its objectives, but also how well those who have received government subsidies have performed. Reviews of the levels of service being provided and comparisons with what was originally planned are carried out on a regular basis. Changes, if necessary, are made to agreements.

13.89 The Department relies on audits of ferry operators to complete its monitoring of the program. Accordingly, in our assessment of the way the Department monitors and reports the results of the program, we reviewed the scope, timing and results of contract audits carried out in CN Marine by the Audit Services Bureau on behalf of the Minister of Transport. We have relied on the work done by the Bureau.

13.90 **Scope of contract audits.** The provisions for audit contained in the operating agreements with CN Marine were exercised by the Minister of Transport in appointing the Audit Service Bureau. We noted that the audit scope did not extend to examining areas relating to the economy and efficiency with which CN Marine was delivering the ferry services it had agreed to provide. The Department has tried to initiate an operational audit of CN Marine; however, CN believes that the Minister's auditors have no legal or other basis for seeking information from CN Marine on its operations, apart from information of a strictly financial nature. Because CN Marine's formation was approved by Cabinet to effect improvements in financial control and economy and efficiency of operations of the East Coast ferry service, financial audits alone are not sufficient to discharge the Department's responsibilities for ensuring due regard for economy and efficiency in the delivery of its program.

13.91 In 1981, CN's internal audit group carried out an internal audit of CN Marine. We were informed that the Audit Services Bureau, during its audit for 1980, asked for a copy of the CN internal audit report. The Audit Services Bureau, however, was denied full access to the report on the grounds that it contained non-financial information. CN had offered to provide only those sections of the report that it decided were solely of a financial nature. In our opinion, such restrictions limit the usefulness of an audit carried out by the Minister's auditors appointed to safeguard the public interest.

13.92 In 1980, CN Marine commissioned a review of its operations. The report of this review did not provide adequate information to the Department on how economically and efficiently CN Marine was operating specific contracted services. The report stated that "information was not available to make any judgement of the efficiency of costs relative to the service level and the assets utilized."

13.93 The Department should seek a clear mandate to expand the scope of its audits of CN Marine to include a review of the economy and efficiency of the company's operations.

> The Department answers that this is being pursued in the formal review of the Tripartite Agreement.

13.94 Timing of contract audits. When audits are not completed on a timely basis, their effectiveness is reduced. We reviewed the audits conducted at the request of the Minister of Transport by the Audit Services Bureau and found that, for 1979 and 1980, the Bureau's audit work was commissioned too late to allow the results to be used in the Department's ongoing negotiation process. The final audit report for the 1980 audit was issued only in May 1982. However, the Bureau's audit for 1981 has been commissioned in time for timely reports to be made.

13.95 Reporting results. When Cabinet approved the establishment of CN Marine, it required that in 1981 the Minister report to Cabinet on the effectiveness of the arrangements made in 1979 with CN and CN Marine for water transportation services. Although such a report was not submitted to Cabinet in 1981, the Department has prepared a draft report that will be reviewed by the Minister of Transport.

Grain Transport

13.96 The Grain Transportation and Handling Directorate of the Department of Transport serves as the prime adviser to the government on all matters relating to moving and handling grain. It reports to the Minister of Transport and the Minister of State responsible for the Canadian Wheat Board. The Directorate is responsible for administering three grain-related programs -- the prairie branch line rehabilitation program, the box car repair program, and the hopper car acquisition and lease program. The CTC is responsible for the branch line subsidies under the Railway Act.

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13.97 The Crowsnest Pass Rate, set by statute, is widely recognized as having a significant effect on grain transportation. Owing to difficulties created by the statutory rate, the railways have been reluctant to invest their own funds in the equipment and facilities needed for grain transportation. The Department emphasized to us that the Government, in June 1977, postponed a decision on the rate issue and instead continued with ad hoc solutions to the problem. The branch line rehabilitation program was one of these solutions. The Department also informed us that the railways are unwilling participants in such programs, since their primary objective is to obtain recognition and reimbursement of their grain transportation losses through a change in rates.

13.98 For 1982-83, the Department's Grain Transport Program expenditures were forecast at $100 million. Approximately 85 per cent of this amount is for contributions to the railways for the prairie branch line rehabilitation program. The program, which was initiated in 1977, calls for the rehabilitation of 5,675 miles of branch lines by 1992 at a cost of $1.6 billion. Another 12 per cent of program expenditures is directed to the Canadian Wheat Board as a contribution to the cost of leasing 2,000 hopper cars for the railways. The remaining 3 per cent covers departmental operating costs. The box car repair program was terminated in 1981.

Planning

13.99 Planning for the prairie branch line rehabilitation program showed weaknesses in three areas:

- assignment of responsibility for timely maintenance of the rehabilitated lines;
- assessment and disclosure of all significant financial implications; and
- development of construction standards and specifications.

13.100 **Responsibility for maintaining rehabilitated lines.** The prairie branch line rehabilitation program was initiated when the government recognized that the condition of the prairie branch lines was deteriorating because the railways had been deferring maintenance on them for 10 to 15 years. Prior to implementing the rehabilitation program, the Department had no commitment from the railways that they would not defer maintenance on the branch lines in the future.

13.101 To carry out the rehabilitation program, the Department enters into annual agreements with CN and CP. Agreements 1 and 2 (1977-80) did not specify responsibility for future maintenance. Agreements 3 and 4 (1980-84) specified that the railways would be responsible for maintaining all the lines covered by the program until the year 2000. In Agreement 4, however, the arrangement is subject to adjustment if, for example, the CTC decision to exclude related ownership costs from branch line subsidy payments is enforced. If the railways are successful in these claims, it could have a significant long-term effect on the financial costs of the branch line subsidy program.

13.102 **Financial Implications.** Lines designated for rehabilitation are also eligible for branch line subsidy payments administered by the CTC. This subsidy compensates the railways for expenditures made on unprofitable branch lines. We noted that, prior to Cabinet's decision to initiate the program, the Department had not consulted with CTC to determine the overlap between the two programs or analyse for ministers the full financial implications of the rehabilitation program on CTC's subsidy payments.

13.103 The railways maintain that they are entitled to include those capital costs for which they have already been reimbursed by the government under the rehabilitation program in determining their losses for subsidy purposes. The railways have already claimed some $50 million from the CTC for such "double" benefits. The CTC has ruled that these costs are not allowable. CTC has stated that, essentially, allowing them would mean that the government would be billed under one program for costs it had already paid under another. If the railways appeal this decision and are successful, the increased cost to the government for increased subsidies could be substantial. One of the railways has asked for leave to appeal. The Federal Court of Appeal has not rendered its decision.

13.104 **Construction standards.** The basic objective established for the rehabilitation program was to repair and, where necessary, upgrade branch lines in the prairie rail system. The Department, however, implemented the program without adequately determining the existing condition or investigating the options for construction standards and specifications appropriate for rehabilitating and upgrading the lines. It signed three agreements, involving $240 million, before commissioning a study to verify the appropriateness of the standards and specifications selected. The study, which confirmed that the standard selected was appropriate, was commissioned because the railways were requesting a higher standard of rehabilitation.

13.105 The study, carried out by the Canadian Institute of Guided Ground Transport, noted that the lines could be upgraded to different standards and specifications; that is, they could be upgraded to handle cars of varying weights. The first three agreements, which preceded the study, specified that CN and CP were required to improve the tracks to a standard that would allow them to handle cars with a loaded capacity of 220,000 lbs. The study confirmed that the 220,000 lbs. standard selected was acceptable. The study recommended that, under certain conditions, such as where the weight of the existing rail is appropriate and the traffic warrants it, the construction standard should be set at 263,000 lbs. It is noted that most of the 10,000 hopper cars acquired by the government from 1970 to 1980 could have a gross weight of 263,000 lbs. To move certain grades of wheat on lines capable of handling only 220,000 lbs., these cars could be loaded to only 80 per cent of their capacity, thus reducing efficiency.

13.106 Unlike the first three agreements, Agreement 4 recognizes the need to incorporate the 263,000 lbs. standard where warranted and to specify appropriate specifications. This example illustrates the importance of carrying out economic and engineering studies before implementing a major construction project. Selecting appropriate standards and specifications is vital for attaining efficiency and economy of operation.

13.107 Incomplete program planning leads to uncertainty in forecasting and controlling costs. Without adequate information, Cabinet could be placed in the position of making decisions on a program without knowing all significant future cost implications for the government.

13.108 **The Department should revise its processes for program planning and for reporting program proposals to the Minister to ensure that all significant financial implications are properly addressed in a timely manner.**

13.109 **The Department should resolve the question of timely future maintenance of the branch lines and determine the potential cost implications, if any, for the government.**

Implementation and Monitoring

13.110 Between 1977 and 1981, the Department entered into four agreements with the railways involving contributions of $318 million. We noted a number of deficiencies in implementing the program.

13.111 **Monitoring performance.** Under Agreement 1, it was intended that CTC would carry out engineering inspections of the rehabilitation work done by the railways and audit railway records to confirm costs. However, in implementing the first agreement, the Department failed to:

- develop specific terms of reference for the CTC's inspections and audits;
- assess the costs and human resources required for the inspections and audits; and
- reach an agreement with CTC that these services would be carried out at CTC expense.

13.112 CTC officials advised us that engineering inspections and financial audits could not be completed because of a lack of resources. In 1981, outside auditors were hired to conduct financial audits of Agreements 1, 2 and 3 and outside engineering consultants to conduct the engineering audit to 1980; CTC was engaged to carry out an engineering audit for 1981 and subsequent years. The contract with the engineering firm also required that it assess the "cost efficiency" of the work performed.

13.113 It is difficult for the inspectors and auditors to ensure, years after the construction work has been completed and particularly without pre-inspection, that all the construction work billed was appropriate and that it has actually been carried out. Also, because there were few inspection and audit reports available for those years, the Department did not have essential information for subsequent years' negotiations with the railways. We have noted that the auditors did not find any evidence of failure to meet engineering standards or improper use of funds. However, the Department has had no independent assurance, up to this time, that the improvements made to the branch line have been the most appropriate. Further, as of 30 June 1982, an audit of the "cost efficiency" of the construction work done since 1977 had not been completed. The Department has advised us that comprehensive engineering inspections were carried out for the 1981 work program and are now being carried out for the 1982 work program. In addition, financial audits are to be initiated promptly.

13.114 **Construction costs charged by the railways.** The agreements between the Department and the railways outline the methods and rates to be used by the railways in recovering their construction costs from the government.

13.115 Agreements 1 and 2 (1977-1980) stipulated that the costs reimbursable to the railways would be based on CTC's Schedule A Directive that the railways used in claiming costs from the Railway Grade Crossing Fund. In general, these rates cover costs directly applicable to a project and overhead items incurred as a result of the work. In Agreement 3, the Department adopted interim rates established by the railways. Rates for Agreement 4 were fixed for 1981-82 and the rates for subsequent years are subject to review. The auditors carrying out a preliminary review of the rates have noted:

> Due to the lack of any statement of intentions, either in the agreement or elsewhere, it is unclear whether the Rehabilitation Program should be contributing only to incremental costs incurred as a result of the Program, or whether it should be making a contribution to the fixed overheads of the railways.

13.116 If the railways are allowed reimbursement for fixed overhead costs, the total cost of the program will increase significantly. This type of reimbursement would also set a precedent for other government railway-related programs. We have been advised that the Department is now taking steps to explore the full financial implications of adjustments to reimbursable railway overhead costs.

13.117 **Box car repair program.** Our examination of the manner in which the box car repair program was implemented indicated that there were similar weaknesses to those noted in the prairie branch line rehabilitation program. For example, cost-sharing agreements were negotiated with the railways for the repair of 4,815 cars at a costs of $18 million to the Canadian taxpayer without satisfactory independent pre-inspections and assessments to confirm to the Department the need, extent and cost of repairs proposed by the railways. The Department has pointed out that it did arrange certain assessments and inspections by the CTC, and the agreements provided for reimbursement to the railways based on audited actual costs.

Monitoring Effectiveness

13.118 The branch line rehabilitation, hopper car acquisition, and box car repair programs share a common objective: "to increase grain system movement capacity to meet current year, 1985 and 1990 export targets." Our audit included an assessment of the extent to which the Department is monitoring these programs against their objectives.

13.119 **Prairie branch line rehabilitation program.** In the case of the rehabilitation program, a primary objective of upgrading the rail lines, as stated in the Major Crown Project Brief, is

> to enable the railways to operate trains on a scheduled, reliable basis on the rehabilitated lines and to thereby improve the efficiency of the grain car fleets and the performance of the entire prairie grain

collection system. The improved lines together with other operating measures and a larger proportion of grain hopper cars are expected to improve car cycle times by 15 per cent by 1985.

13.120 We found that the Department does not collect and report appropriate data on these key objectives in a routine or systematic manner in order to monitor the effectiveness of the rehabilitation program. The Department informed us that this is done by the Canadian Wheat Board and the Grain Transportation Coordinator. However, the Department has not determined the extent to which this program, as opposed to other current and evolving alternatives, has contributed to improving grain movement.

13.121 The Department plans to evaluate the performance of the program and report to Treasury Board at the end of 1982. We were advised that consultants have been hired to measure certain improvements associated with the rehabilitation program. We were also advised that the study will include measurement against the stated objectives of improving the efficiency of trains and the capacity of the grain transport system.

13.122 **Box car repair program.** We are informed by the Department that monitoring of boxcar attrition has been carried out by the Grain Transportation Authority since the office was established by the Minister of Transport. The extent to which the repair program has assisted the Department and the Canadian Wheat Board in achieving grain export targets has not been fully assessed by the Department.

13.123 **Hopper car acquisition and lease program.** During the period 1972 to 1981, the Department of Industry, Trade and Commerce and the Department of Transport purchased 8,000 hopper cars and leased another 2,000 cars for the railways' use. Justification for these purchases was based in part on the premise that the capacity and efficiency of these cars would combine to reduce the car cycle times, thus increasing the capacity of the fleet and the system. However, the Department has not developed procedures to determine the extent to which the car cycle times have been reduced as a result of these expenditures. For 1981-82, the Department estimates a total cost of $17 million for the leased cars. The Department points out that car cycles are only one of the many measures of railway efficiency which must be combined with other factors such as weather, markets, volumes and types of grain available as well as other commodity movements, availability of vessels, labour disputes, and so on. Substantial increases in volume of grain moved in recent years are an indication of improved system efficiency as a result of government programs in this field.

13.124 **The Department should conduct a comprehensive evaluation of the Grain Transport Program. This evaluation should include measurement of program performance against the stated objectives and an assessment of other potential system improvement alternatives to determine whether there are better ways of achieving the objectives.**

The Department responds that decisions about this recommendation will have to await the outcome of current consultations over the future of the Crowsnest Pass rates and the Western grain transportation system.

Highway Transport

Atlantic Provinces Primary Highway Strengthening Program

13.125 In 1977, the federal government approved the primary highway strengthening program, under which, the Main Estimates (Part III) indicate, highways in the four Atlantic provinces would be strengthened to carry a higher and uniform maximum weight limit as elsewhere in Canada. A number of benefits were anticipated. Costs for improvements in the Maritimes were to be shared equally with each of the four provinces. Previous agreements had been made with the western provinces to permit trucks to move from Ontario to British Columbia under uniform load regulations. Although Phase I of the Atlantic program was designed to achieve essentially the same objective, it was also viewed as the first part of a broader program, which would proceed only if Phase I proved to be sufficiently effective in economic terms to justify continuing. Federal contributions to Phase I expenditures were to be $100 million over three years.

13.126 Agreements have been signed with the four Atlantic provinces to proceed with Phase II, with the stated objective of improving highways to support regional development, improve transport efficiency, maintain road safety and improve traffic flow. Terms of the agreements vary: with Newfoundland the government has agreed to assume 75 per cent of the cost of a three-year $48 million program; with the other three provinces, a five-year, $168 million program, to which the federal government will contribute 50 per cent, has been adopted. Although the program has no special legislative base, Parliament has approved all expenditures under the Appropriations Act. Future expenditures are to be made within a fixed federal transport expenditure envelope, so that support for less effective programs will be reduced and the savings directed to other transportation programs.

13.127 **Phase I.** As part of a transportation package approved by Cabinet in 1977 for the four Atlantic provinces, $100 million was allocated for highways in these provinces. One of the conditions of federal participation was that the load limits on the highways in these provinces would be set at the same level as elsewhere in Canada. A number of economic benefits were anticipated. For example, economic studies predicted that the higher truck load limits would enable trucks to operate more efficiently and therefore reduce the cost of moving goods. The net present value of the expected economic benefits from more efficient trucking were estimated by a consultant for the Department in 1977 at $160 million. The assumption was that trucking operations would become more efficient through reduced operating costs, fuel consumption and operating time and that this would stimulate regional economic development. The amount of expected economic benefits from factors such as improved trucking, as well as other general economic benefits, were brought to the attention of ministers in seeking Cabinet approval for the program.

13.128 In assessing the appropriateness of these expenditures in meeting the objectives approved by Cabinet, it must be noted that, at the time the joint financing agreements were signed, truck load limits were already at the specified level in one of the provinces. Ministers were not formally informed of this prior to the implementation of the program. The Department states that the legal load limits were at the specified level; the capacity of the roads was not. Consequently, road strengthening was requested by this province, together with the others.

13.129 **Phase I effectiveness indicators.** The National Highway Policy approved by Cabinet in May 1974 provides the principal policy guidelines for federal highway programs. This policy specifies the objectives and principles that federal departments must use when assessing its contributions to highway expenditures. The joint financing agreements for Phase I stipulated that Canada and the provinces would "undertake the necessary data collection to enable the results of the assistance program to be evaluated." The agreements also required management committees to establish "appropriate achievement indicators to measure the cost-effectiveness and the social and economic benefits of the projects implemented ..." and to "effect an assessment of the project ... and of the impact of the uniform truck load regulations ... with regard to stated objectives."

13.130 As required by the agreements, each of the four Atlantic provinces has submitted a retrospective evaluation of Phase I projects. Descriptions of the projects are provided, along with some information on changes in the size and composition of the province's truck fleet. One million dollars was spent on these evaluations. These evaluations provide information on a number of benefits that have accrued from the highway investments as envisaged by the Department and the provincial governments. The studies did not, in all cases, obtain data on the actual reductions in operating costs, fuel consumption and operating times experienced by truck operators using the improved highways. These benefits were estimated in the studies. Thus Cabinet was provided with limited information on this aspect of the effectiveness of Phase I when considering Phase II of the program.

13.131 The Department states that truck operating cost savings were estimated in retrospective studies but the data required to formulate a reliable estimate of freight rate savings were not generated due to resource constraints. The latter savings can be inferred on a non-quantifiable basis from the upward changes in truck fleet composition.

13.132 **Phase II.** The objectives approved by Cabinet for Phase II highway expenditures of $84 million stated that the program should support and reinforce specific natural resource and economic development initiatives. As well, it should improve transport efficiency, maintain adequate road safety and improve traffic flow.

13.133 Phase II of the highway development program for Newfoundland has been based on longer term multi-modal planning studies. Cabinet has decided that annual federal transport expenditures in Newfoundland are to remain at current levels in constant dollars; expenditures are to be transferred gradually to more effective forms of transportation. Cabinet has also approved the pursuit of similar strategic objectives in the three other Atlantic provinces. The Department points out that in accordance with Cabinet's decision, there will be a reduction in freight rate subsidies in the provinces and, initially, the money will be used for Phase II highway projects.

13.134 Since freight rate subsidy payments are statutory payments made through the CTC, there is no guarantee that the estimated reductions of $7.9 million in Newfoundland and $72.6 million in the other three Atlantic provinces over the next five years will be achieved. It will be necessary for the Department to monitor the extent to which CTC subsidy payments are actually reduced, so that it can draw to the attention of ministers any variances between forecast and actual savings on a timely basis. This information would allow the Department to suggest further changes if necessary. It should be noted that the $75 million in savings that was to be achieved through rail passenger and freight subsidy reductions and used for financing Phase I of the highway strengthening program were not fully realized.

13.135 Cabinet specified in 1977 that Phase II projects would have to be justified on the basis of the demonstrated economic benefits of Phase I projects. As noted earlier, certain of the key benefits were estimated in the retrospective evaluations. We found that the Department has not conducted appropriate cost-benefit studies of potential Phase II projects. Although the Department has estimated the benefits to motorists, it has not tried to show how much the projects included in Phase II will contribute to the program's objective of supporting provincial or federal regional development programs. We found that the Department had not completed the multi-modal transport studies required by Cabinet before implementing Phase II. The Department points out that its recommendation for changes to the regulations was based on a number of studies and after extensive discussion in the Federal-Provincial Committee on Atlantic Region Transportation.

13.136 In the discussion paper on Phase II prepared by the Department, some information on the effectiveness of Phase I was provided. For instance, it was stated that improved highways have induced more efficient trucking and lower truck rates, thus enabling regional industries to become more competitive in essential external markets. We found however, that there was insufficient evidence available in the Department to support this assertion.

13.137 In future program evaluations of highway projects, the Department should compare the benefits derived from funding freight subsidy programs directly with those derived from directing funds to highway strengthening projects.

13.138 The Department, in consultation with the recipient provinces, should develop a system for monitoring the extent to which expenditures on Phase II of the primary highway strengthening program meet all the program's major objectives.

Highway Safety Program

13.139 Annual expenditures on the Highway Safety Program are approximately $11 million. The objectives are to contribute to reducing the incidence of death, injury and property damage resulting from motor vehicle use and to reduce the average fuel consumption and exhaust emissions of new vehicles. Although highway safety is primarily a provincial responsibility, the Department of Transport sets national standards and operates the Motor Vehicle Test Centre in Blainville, Quebec.

13.140 Follow-up on previous recommendations. In our 1978 annual Report to the House of Commons, we gave our opinion that the Department of Transport had not given due regard to economy in planning the Motor Vehicle Centre project. In response to our observations, the Department reassessed the chain of decisions leading to the building of the Centre. It also examined related cost overruns and carried out an assessment of the available options with respect to the future use of the facility. The Department's study examined a range of alternative uses for the Centre and concluded that although the Centre is not "commercially viable", the option of operating the Centre would be preferable to selling, closing or giving it away.

13.141 Current activities. The quality of information used for planning the program's ongoing activities is generally satisfactory. The resources required and the various ways to achieve the goals and objectives of the program have been continuously assessed on the basis of economy and efficiency. We found that Test Centre operations are satisfactory and that co-ordination with other departments and agencies of government is adequate.

Urban Transport

13.142 Under the Urban Transportation Assistance Program, the federal government agreed on a cost sharing basis to provide the provinces with capital assistance for urban commuter and transit services for energy conservation, urban environment, efficiency and safety reasons. The program began in 1978 and had a $230 million ceiling. Financial allocation was set at $10 per capita, with funds to be made available over a five-year period. In February 1981, it was extended for a year at the request of the provinces.

13.143 **Planning.** The federal government has allowed the provinces to establish their own priorities for projects. Most of the money has been spent on projects related to improving safety at railway crossings. We found that the quality of information that the Department used for planning the program's ongoing activities was generally satisfactory.

13.144 **Implementation.** Advance and progress payments to the provinces and territories were based on documentation provided by the recipients, in accordance with the terms of the related agreements. However, at the time of our audit, the Department had not applied adequate post-payment controls. For example, the Department had not exercised its right to carry out audits as specified in the contribution agreement, nor had it made any satisfactory arrangements for independently monitoring the progress of the various projects. As a consequence, the Department has not obtained explicit assurance that the work carried out on its behalf was in accordance with the approved project specifications. Moreover, the Department has not established whether all the amounts claimed were eligible for reimbursement. An estimated $120.6 million has been disbursed under this program to 31 March 1982 without such controls having been used. The Department has advised us that an audit program is now being implemented.

13.145 **Evaluation.** In 1981, the Department tried to evaluate the program's effectiveness. However, at that time it assessed only 18 projects, involving less than $10 million of this $230 million program, because more data were not available at that stage. Therefore, this did not provide an adequate assessment of the overall effectiveness of the program.

Multi-Modal Planning

13.146 Multi-modal planning entails examining all applicable modes of transport -- air, bus, truck, train, and so on -- to enable the choice to be made of the mode or combination of modes that will provide the best and most cost-effective way of meeting a transportation need. The National Transportation Act states that "an economic, efficient and adequate transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation ...."

13.147 Through multi-modal planning, significant savings may be realized in both passenger and freight services. The need for such planning was fully recognized by Cabinet in the transportation policy tabled in the House of Commons in 1975.

13.148 The Department, as a matter of course, ought to present all multi-modal considerations to the Minister whenever it proposes significant transportation alternatives. We found instances where the Department had not included an adequate analysis of multi-modal factors in its presentations to the Minister, particularly in railway transport. We have provided specific examples in earlier sections of this chapter.

13.149 The Department should ensure that an adequate analysis of multimodal considerations and alternatives is included wherever applicable in all significant transportation proposals presented to the Minister.

Role of the Senior Financial Officer

13.150 Although the role and responsibilities of the Senior Financial Officer (SFO) have been adequately defined, we found that they have not been fulfilled for the Surface Transportation Program.

13.151 Major programs have been developed without the Assistant Deputy Minister, Finance, who is the SFO, having either assessed them or advised on their financial implications. His involvement has been minimal both in specifying financial controls required for implementing the programs and in commenting on the way program managers have monitored their financial results.

13.152 We looked at financial data for a number of key program proposals. We found that the SFO had only limited input or none at all in many areas such as:

- the financial impact of cut-backs in VIA Rail services in 1981;
- the reliability of data on costs and benefits supporting the acquisition of the second set of LRC trains acquired by VIA in 1982;
- CN's 1981 budget proposal for the acquisition of the Gulfspan ferry ($80 million); and
- major operating contracts and contribution agreements with recipients (such as the railways) of federal funds.

13.153 As a result, the SFO has not been directly involved in most Surface Transportation Program proposals. Accordingly, he has not carried out his assigned financial management and control responsibilities.

13.154 We have been advised that the Department has taken steps to reinforce the SFO role in the review, challenge and control functions related to financial assessment, implementation and monitoring of the Surface Administration programs.

Measuring and Reporting Program Effectiveness

13.155 The responsibility for evaluating program effectiveness in the Department of Transport was clearly defined in 1975, and resources were allocated for this purpose. However, no effectiveness evaluations of the major areas of significance within the Surface Transportation Program have been completed. The Evaluation Branch, which is responsible for evaluating effectiveness, has conducted only reviews of management processes within the Surface Transportation Program. These studies do not constitute measurement and reporting of program effectiveness.

13.156 Similarly, although the Evaluation Branch was given responsibility in 1976 for developing performance measures, including indicators of effectiveness, appropriate measures have not been developed for the Surface Transportation Program. This makes it difficult to monitor the success of programs on an ongoing basis and to conduct program effectiveness evaluations.

13.157 The Department took some steps during 1981 and 1982 to follow Office of the Comptroller General guidelines on the structure and management of the evaluation function. However, the success of these efforts in generating satisfactory measures and studies of the effectiveness of Surface Transportation programs has yet to be demonstrated.

Internal Audit

13.158 Internal audit's mandate was designed to ensure that all key aspects of the management process of all program components would be reviewed periodically. However, we found that, during the period 1978-81, internal audit did not give adequate audit coverage to five of the six key components of the Surface Transportation Program. Audit and review of administrative and support systems that were covered did not include all significant aspects of these systems. This weakness may result from a failure to address all significant aspects of management systems and to ensure that significant weaknesses receive high audit priority. For example, internal audit observed that in 1979, VIA's management did not provide adequate, timely financial data to the Department in support of invoices for services provided under contract to the federal government. However, it did not determine why adequate data were not submitted or assess the implications of VIA's failure to provide these data.

13.159 **Reporting.** We found that the format of audit reports and their length and detail obscured significant findings and recommendations. Reports gave the most important items the same weight as those of substantially less significance. For example, an internal audit report on financial and materiel management noted deficiencies in major contracts. The same document reported minor items, such as lack of signatures formally authorizing certain organization charts, in as much detail. The 1979 report noted a serious problem concerning the lack of documentary support for capital expenditure payments by the Department to CN. However, this finding was not analysed to assess the potential risk or probable cause of the problem. Our findings on the railway passenger and water transport programs highlight the significance of such problems.

13.160 **Working papers.** Working papers other than those for financial audits, particularly those relating to internal reviews carried out by the Evaluation Branch, did not meet acceptable standards. For example, they did not always state clearly the objectives or criteria for particular audits and reviews and seldom indicated the basis for determining audit priorities. They contained little identification or analysis of the strengths and weaknesses of controls within the management systems being reviewed.

13.161 **Organization.** Internal audit is organized on a functional basis. One branch carries out all financial and materiel audits and other branches separately conduct operational reviews, personnel audits and other internal audit reviews. Audits of the Surface Transportation Program lacked a broad, interdisciplinary approach and did not recognize that significant management issues are closely interrelated. Any recommendations that internal audit makes may not offer real solutions to serious problems identified in any review. For example, the 1979 financial audit revealed instances in which certain major Crown corporations had not complied with the terms and conditions of operating contracts. However, the audit was restricted to compliance issues and did not examine the related management issues. Consequently, internal audit did not provide the Deputy Minister with the kind of information he needs to monitor the way the Surface Transportation Program is managed.

13.162 **Follow-up on previous recommendations.** The Department has taken a number of steps in response to the recommendations in our 1978 Report and to more recent comments by the Comptroller General. We have been informed that further improvements are planned, including reorganization of internal audit. The planning process is being strengthened, and a centralized planning and control function is being established. Our examination of the results of internal audits of the Surface Transportation Program for the four years ending in 1981 confirms the need for the improvements.

FOREIGN OPERATIONS

FOREIGN OPERATIONS

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14

FOREIGN OPERATIONS

Background and Audit Scope

The audit of Foreign Operations included the Department of External Affairs, the programs abroad of the Canada Employment and Immigration Commission (Immigration program) and the Department of Industry, Trade and Commerce (Trade Development program). On 12 January 1982, responsibility for the Trade Development program was transferred to External Affairs. The three entities account for the majority of Canada-based personnel serving at 120 diplomatic missions around the world.

Other organizations, such as the Canadian International Development Agency (CIDA), the Department of National Defence (DND), and the Royal Canadian Mounted Police (RCMP) also have programs abroad. These account for 9.7 per cent of person-years abroad, and we reviewed them only in so far as they have an impact on other programs at posts. Person-years allocated to the various programs at posts are shown in Exhibit 14.1.

The foreign service organizations represented at posts are jointly responsible for conducting Canada's external relations. This mandate includes a variety of tasks: communicating and negotiating with foreign countries; gathering and analysing political and economic information; projecting Canada's image abroad; providing assistance to Canadians abroad; promoting and developing Canadian export opportunities; screening applicants wishing to immigrate to Canada and so on. These activities have both domestic and foreign components. Policy formulation, co-ordination and administrative support are provided by headquarters in Canada; program delivery occurs primarily at posts.

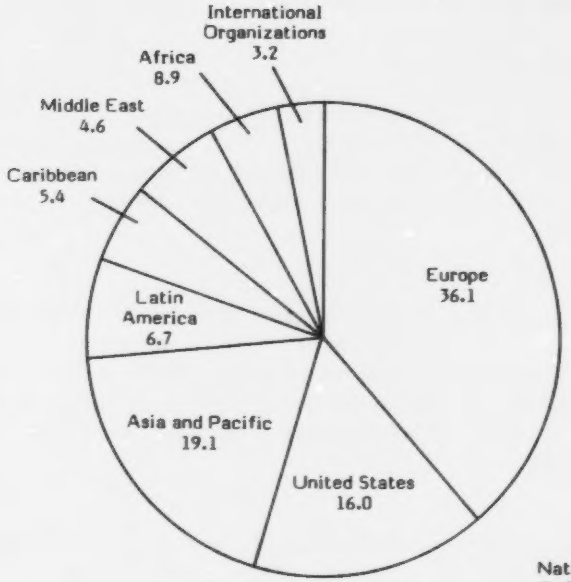
Most program positions and security-sensitive support positions at posts are staffed by rotational foreign service and administrative personnel (1,971 for 1981-82). The balance of positions abroad (2,688 for 1981-82) are staffed by locally engaged personnel. Rotational personnel serve abroad on tours of duty ranging from two to eight years' duration, with alternate postings in Canada. The numbers of people at posts vary from 4 to 300, and living and working conditions cover the full spectrum from idyllic to primitive. Personal security, health, education and recreation continue to be major concerns for rotational employees at many locations around the world.

Two events of note took place during our audit. In April 1981, Consolidation of the Foreign Service resulted in transferring to External Affairs the foreign service personnel of the Trade Development, Immigration and International Development Assistance programs, except for the "operational level" of the Trade Commission Service. This change was followed in January

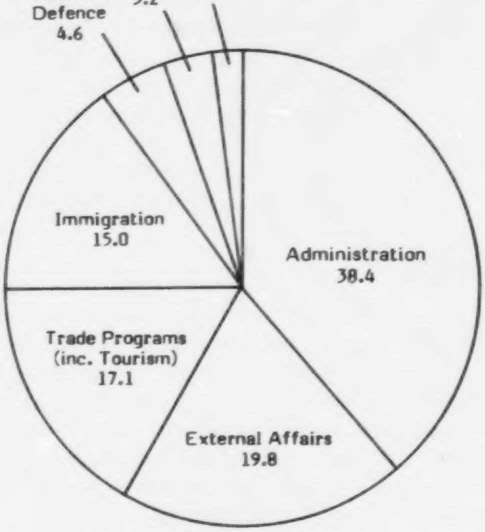
Exhibit 14.1

FOREIGN OPERATIONS

DISTRIBUTION OF PERSON-YEARS AT POSTS ABROAD - 1981-82



Geographical Distribution



Program Distribution

1982 by a realignment of departmental responsibilities, flowing from the reorganization of government departments announced by the Prime Minister. Before reorganization, the responsibility and authority for planning and delivering Canada's foreign programs were not clear. The reorganization brought together the responsibility and authority for program delivery by transferring the Trade Development program from the Department of Industry, Trade and Commerce to External Affairs, along with the remainder of its foreign service personnel. As a result of these events, all major programs at posts, except for Immigration and International Development Assistance, are under the control of External Affairs, and virtually all foreign service personnel are now employees of External Affairs.

Although departmental responsibilities changed during our audit, operating systems remained intact. We included a review of major foreign service organizations and, therefore, the changes had little impact on the audit. Since most of our work was done before January 1982, our comments are presented along the departmental lines that existed then.

The main focus of the audit was on posts. Our work concentrated on reviewing how programs delivered at posts were planned, controlled and evaluated. This process included a review of how the individual departments established program objectives, determined resource needs, implemented the programs and measured the effectiveness of programs in achieving the desired results. We also examined the workings of interdepartmental mechanisms set up to co-ordinate policy and resources at posts.

Our second area of interest was the management of human resources, primarily foreign service personnel. We examined how the various departments established their needs for personnel abroad, determined the availability and skills of their current complement, and undertook action plans, such as training, to improve program delivery. We reviewed the information systems used by the personnel management groups to carry out their duties.

A final aspect of the audit comprised the review of the support services provided by the Department of External Affairs. These included accommodation abroad, financial management, telecommunications and internal audit.

FOREIGN OPERATIONS

SYNOPSIS

Interdepartmental Management of Foreign Operations

14.1 The Interdepartmental Committee on External Relations (ICER) and its 1980 replacement, the Committee of Deputy Minsters on Foreign and Defence Policy, have been largely ineffective in rationalizing resources abroad with Canada's external interests. The respect for departmental sovereignty over programs has precluded effective interdepartmental examination of program objectives and priorities at posts. Reviews of resource allocations have concentrated on marginal and incremental items while the resource base has been taken for granted. The process has not resulted in a meaningful set of objectives or priorities for the posts or in adequate feedback to their proposals. As a result of the inability of interdepartmental mechanisms to discharge their mandate adequately, the Government has no assurance that the human and financial resources at a particular post are relevant and proportionate to Canada's interests in that country.

14.2 In the absence of guidance from Ottawa concerning what is expected of them, Heads of Post, as representatives of all Ministers of the Crown and accountable to them, have to decide which issues at each post are of greatest importance to Canada and manage resources accordingly. This situation often causes conflicts among senior personnel at posts as well as among the respective departments in Ottawa.

14.3 As a result of the April 1981 Consolidation of the Foreign Service and the January 1982 realignment of departmental responsibilities, External Affairs now has greater control over major activities at posts. Although these changes should partially resolve the problems of co-ordinating policy and resources abroad, departments in Ottawa and posts must agree on a set of meaningful objectives if the efforts abroad are to be both productive and stimulating. In light of the costs of operating posts in a period of continued restraint, an effective apparatus to resolve this question must be developed if Canada is to receive full value for money from its Foreign Operations.

Department of External Affairs

14.4 The nature and scope of the Department's activities, and hence the role of the foreign service, have changed dramatically in recent years. In a letter to Miss Pamela McDougall, outlining his views on the Royal Commission study that she was about to undertake, the Prime Minister commented on this subject. He said:

> Traditional concepts of foreign service have diminished relevance in an era of instantaneous, world-wide communications, in which there is increasing reliance on personal contacts between senior members of

governments, and in which international relations are concerned with progressively more complex and technical questions.

14.5 Indeed, much of the glamour that used to accompany foreign service life has disappeared. Although they were once regarded as the country's prime representatives and spokesmen abroad, diplomats are now often in the supporting cast, at times little more than foreign correspondents responding to queries from Ottawa. Added to this lesser sense of importance are the growing concerns for personal security abroad as a result of terrorist activities aimed at the diplomatic community. No doubt these are factors in the "declining sense of motivation" referred to in the Report of the Royal Commission on Conditions of Foreign Service, published in December 1981.

14.6 Although the foregoing comments apply to the Canadian foreign service as a whole, they are particularly relevant to External Affairs. While the Department's role and environment have changed over the years, its management philosophy has not. The Department has traditionally resisted the imposition of management controls on the basis that "nous ne sommes pas comme les autres", that such concepts were impractical and irrelevant in an environment as volatile as foreign affairs. As detailed in the following sections of this chapter, modern management practices in program planning, personnel and support functions are not well developed in External Affairs.

14.7 There is insufficient consultation and discussion, both horizontally and vertically, of program objectives and achievements to allow for preparing meaningful annual plans. Instead, resources tend to be jealously protected along geographical and functional lines. New initiatives or thrusts usually result in a demand for additional resources, although there is little in-depth review of whether available resources are being put to best use.

14.8 By failing to recognize and adopt contemporary practices for planning and controlling activities, the Department has contributed to its current problems. By not articulating in meaningful terms what it wants done and providing measures by which individual and organizational performance can be gauged, the Department has failed to provide the necessary sense of purpose and direction required in the face of its changing role.

14.9 A second but related problem is the Department's approach to managing people. Human resource management at External Affairs tends to focus on the annual assignment process for rotational foreign service employees. The objective of this process, in the Department's own words, is "to have the right person in the right place at the right time". However, the Department has not adequately determined its human resource requirements related to the job that needs to be done. Furthermore, the Department does not have an accurate inventory of the skills and experience of its current employees. Under the circumstances, it is difficult to imagine how the Department could hope to achieve its stated objective.

14.10 Related activities, such as annual appraisals and training, have had only marginal impact on the development of people. Again, the failure to articulate job specifications is one of the causes. Since goals or objectives are not specified, performance appraisals can only be done subjectively. Identification of training needs in annual appraisals is seen as having a negative impact on potential promotion. As a result, there is no assurance that current training programs are meeting the needs of individuals or the skills requirement of the organization. At a time when employees, especially new recruits, expect information about career paths and professional development programs, External Affairs is ill-equipped to respond.

14.11 External Affairs management of the accommodation program is a further reflection of the informal approach to management that permeates the Department. The Department's failure to consistently follow its own and central agency rules for identifying accommodation needs and to clearly define guidelines or criteria for setting priorities tends to encourage an inordinate amount of intervention from interested parties. The Tokyo chancery is a case in point. Although the Department has acknowledged the need for better accommodation there, it has procrastinated in developing property that it owns for reasons that do not appear to be based on program needs or economic rationale.

14.12 The program has expended in excess of $100 million in the last six years acquiring office and residential space abroad; yet, a high rent location such as Lagos, Nigeria, where chancery space is rented at a minimum annual cost of $733,000, was a priority for almost 10 years before any action was taken.

14.13 Other support functions, such as financial management and internal audit, do not enjoy a very high profile in the Department. Although the financial management function has improved since our last review, the Department needs to develop a plan for implementing our recommendations to provide for continuing improvement. The internal audit and inspection functions are not providing senior management with an independent appraisal of the economy and efficiency of departmental operations. Thus, the Department may not be getting full value for the resources allocated to these functions.

14.14 A bright note is the operation of the Department's telecommunications network. The network provides a vital link with the posts and makes possible the rapid and reliable transmission of political and economic reports and other necessary operating information. It provides an economical and efficient service.

14.15 The January 1982 realignment of departmental responsibilities has brought considerable change to External Affairs. The integration of the Trade

Development program with External Affairs and the additional control over Immigration activities provide an opportunity for the Department to eliminate some of the duplication and overlap in responsibilites that existed previously. The changes should allow for a clearer focus for all activities at posts and a more efficient use of resources. The new senior management team has already undertaken a number of studies to review organizational structure and streamline operations. These efforts should provide the starting point from which the problems and deficiencies noted in this Report can be tackled.

International Trade Development

14.16 The Trade Development program is the leading edge of the Government's efforts to expand trade. Through a network of representatives in Canada and at 91 posts in 67 countries, the program aims to "increase the total effective market for goods and services produced by the Canadian economy". This is done primarily by providing advice and financial assistance to Canadian businessmen to familiarize them with foreign market opportunities and assist them in marketing Canadian products.

14.17 The bottom line on the Trade Development program is "what impact does it have on the expansion of Canadian trade?" Unfortunately, no one has the answer because there is inadequate measuring and reporting of the effectiveness of the program. Although many of the traditional activities of trade officers, such as providing advice and hospitality services to Canadian exporters, are well planned, well delivered and well received, their impact on expanding trade can only be assumed. This situation is primarily a result of a failure to describe how and to what extent activities that are undertaken will contribute to the achievement of the overall program objective stated above. The intended effects of these activities are not articulated or linked to the attainment of specific industrial sector or regional objectives. Other activities, such as trade fairs and missions, are also well planned, and attempts have been made to identify results. However, in the spirit of enthusiasm and goodwill generally accompanying these events, measures of on-site and follow-up sales tend to be inflated.

14.18 A recent example of an opportunity lost to develop intermediate objectives is the preparation of priority market plans. At the request of Cabinet, 15 plans were to be developed to concentrate Canadian efforts to expand trade in specific countries. To date, 3 plans have been produced and the remaining 12 are well advanced if somewhat behind schedule. The plans, however, do not incorporate formally stated objectives or identify a primary user, such as industrial sector groups. Since these groups, which are largely responsible for expanding Canadian trade abroad, are not the main focus of attention, it is difficult to see how the plans can have the intended effect. At present, the plans are used to facilitate intergovernmental communication, an activity which will not in itself increase trade.

Immigration

14.19 Canada, the United States and Australia receive more immigrants per capita than any other nation. Since 1 April 1981, immigration to Canada has been the joint responsibility of the Canada Employment and Immigration Commission (CEIC) and the Department of External Affairs. The Commission administers the Immigration Act and the Immigration program in Canada; the Department executes the program abroad. Increased and sustained co-operation between CEIC and External Affairs is essential to ensure proper management of the Immigration program.

14.20 As required by the Act, the Government has established annual immigration levels since 1979. For the years 1979 and 1980, the Commission did not provide Parliament with a clear and complete picture of actual immigration intake as compared to the established level and adjustments to it. In 1981, although CEIC came close to meeting the overall level, there was a shortfall of 18 per cent in the planned allocated intake of government-sponsored refugees for 1981. To translate these immigration levels into operational plans, the Commission has developed a concept of targets. There are significant weaknesses in the processes used by management to ensure that this annual immigration level is met. Although the concept of targets appears to be useful for planning and controlling program activities to meet immigration levels and objectives, we noted weaknesses and limitations in the method used in implementing the targets concept.

14.21 Senior immigration program managers of the Commission informed us in September 1982 that they consider that post targets are established as a measure of post efficiency rather than as a management planning process to meet the annual immigration levels. We believe that the accountability of program managers is related to meeting government levels or strategic plans. Consequently, there is a need to link strategic and operational plans, or levels and targets. Levels and targets are not to be thought of as quotas or limitations in immigrant intake but rather as a means of planning and managing the immigration system.

14.22 The Commission has a management information system to monitor the processing of immigration applications. It also has a system to identify labour market needs and requirements. We found that both of these systems need to be made more timely and the latter system more accurate.

14.23 There is a lack of monitoring and control over some key activities to ensure compliance with legislation and to meet immigration objectives. For example, inadequate physical and procedural control exists over visas at the posts, and reconciling landed immigrant records with source data on immigrants processed abroad is not done regularly by headquarters. The last reconciliation was made in January 1981, and it was incomplete. The use of discretion in accepting immigrants at posts is not regularly monitored; the use of immigration officer discretion increased by approximately 25 per cent in the two-year period between 1979 and 1981, representing 16 per cent of successful independent cases in 1981.

14.24 The Canadian government provides immigration and visitor services, without charge, to those who request them. External Affairs currently charges for a number of consular services provided abroad, and it also charges Canadian citizens for passports. The Commission needs to undertake a study of the feasibility and desirability of recovering the costs of services provided, a practice that has been adopted by the United States and Australia.

14.25 Both CEIC and the Department of External Affairs have recognized the need for and are studying the potential for improving post processing efficiency. Providing additional post immigration management guidelines and clarifying accountability in the areas of audit, inspection, monitoring and operational arrangements will help in resolving issues identified in this audit.

Observations and Recommendations

Interdepartmental Management of Foreign Operations

14.26 The Government of Canada decides where Canada should be represented and what activities are to be carried out in foreign countries. The Interdepartmental Committee on External Relations (ICER) was set up in 1970 to provide advice to the Government in making these decisions. In 1980, ICER was replaced by the Committee of Deputy Ministers on Foreign and Defence Policy.

14.27 The Country Program Review (CPR) process was introduced when ICER was established. It was to be the tool for interdepartmental planning of foreign operations. The CPR continued until 1980. After that, in the transition period of consolidation and conversion to the new Policy and Expenditure Management System, the CPR has been altered and somewhat compressed; it is now called the Country Assessment Review (CAR). Basically however, the intent is still the same; that is, to provide a mechanism that allows consultation between posts and headquarters on policies, objectives, programs and resource allocation matters and discussion among organizations involved before decisions are taken on foreign operations for the coming fiscal year and beyond.

14.28 Our review of Country Assessment submissions by posts and attendance at Country Assessment meetings revealed significant weaknesses in the process. Only a few CARs set out objectives to be achieved. The posts often do not provide any detailed indication of their work plans. In addition, resource requests by the posts are poorly supported, and posts are not required to justify their current level of resources. Some Country Assessments make no reference to resources while others make only passing reference. As a result, there is no contract or undertaking between each post and headquarters as to priorities, programs or administrative support. This situation tends to lead to a wide difference between headquarters' and posts' priorities and understanding of the relative importance of the post or its programs to Canada.

14.29 The Country Assessment Review is one year behind the normal government planning process. As a result, redeployment of people and funds is requested with a very short lead time and cannot be readily accommodated. The redeployment that does occur is funded from the Department's operational reserves rather than provided as part of a departmental plan.

14.30 These observations led us to conclude that the current interdepartmental mechanisms were not effective in rationalizing policy and resources at posts. They did not adequately discharge the initial mandate of ICER of "advising on the harmonization of departmental planning with the Government's external interests".

14.31 An unfortunate result of this problem is a lack of guidance and feedback to the posts. Heads of Post, as representatives of all Ministers of the Crown and accountable to them, must decide which issues are of greatest importance to Canada. During our visits abroad, numerous Heads of Post expressed a need for clarification of post objectives to guide their decision making. At present, they are often left to their own devices to allocate resources among programs according to their perception of priorities. These decisions are sometimes unpopular, both at posts and in Ottawa. Program managers may consider that the outcome of their particular program has been compromised by the decision taken.

14.32 In the following sections of this chapter, we describe the approach to program planning by the major foreign service organizations. It is obvious that planning at the departmental level will have to improve before a meaningful set of post objectives can be developed. We believe that consolidation and the recent realignment of departmental responsibilities are positive steps. Greater effort in co-ordinating International Development Assistance and Immigration activities with External Affairs is necessary to provide more economic, efficient and effective foreign operations.

Department of External Affairs

Program Management

14.33 **Planning.** The planning process at External Affairs begins with the preparation of the Strategic Overview, which is followed by operational planning in the form of the Country Assessment Review and Multi-year Operational Plans. The process is completed by resource allocation exercises in terms of the Headquarters Establishment Review and the Budget Allocation. With the exception of Budget Allocation and the Country Assessment Review, this process is new to the Department. The first steps toward planning this way were made for the fiscal year 1981-82 in response to the Government's Policy and Expenditure Management System (PEMS).

14.34 There are three significantly different types of activities undertaken at External Affairs that could require different approaches to planning. The first is Foreign Policy Formulation and Co-ordination which is the primary focus of the Department. Because this type of activity is dependent on world events and the actions of others, it is difficult to state specific goals and measure results precisely. The second group, Consular Affairs, Information Abroad and International Cultural Relations, has some measurable outputs; however, the effects that these programs are intended to achieve are not agreed upon within the Department. The third group of activities is Support Services, including Personnel, Physical Resources, Telecommunications, and Finance and Management Services. These bureaux and corresponding sections at the posts are pursuing tangible activities in support of program activities, including those of other departments. Their outputs are fairly straightforward to plan and control, once program needs have been identified.

14.35 The planning processes at External Affairs are not well developed. The Department has not translated its mandate into a set of goals or activities (operational plans) that are results oriented, clearly linked to resource needs and that can be evaluated in terms of effects. Budgets are not prepared on the basis of costing operational plans. The plans prepared to meet central agency requirements, such as the Strategic Overview and the Multi-year Operational Plan, are not used as the basis for monitoring and controlling program activities. The planning and controlling that is done refers to specific situations and does not take advantage of or consider the interdependence of programs or their effect on support services. Although the Department can achieve success in specific instances, the net effect of all activities remains undetermined.

14.36 **Strategic planning.** Departmental strategic planning should involve the establishment of the Department's role, its long-term objectives and the departmental strategies, policies and programs needed to achieve these objectives. The strategic plan should provide managers with a focus for their activities. Furthermore, strategic planning needs to fulfil the PEMS requirement that the Department's planning contributes to the development of, and remains responsive to, government policy and direction.

14.37 The Department has stated that Canada's foreign policy objectives, expressed in the 1970 document, Foreign Policy for Canadians, are the departmental objectives. However, the Department has not identified a structure and process to ensure that specific policies or strategies are developed and followed to meet those foreign policy objectives.

14.38 The Department does not have a strategic planning process for assessing its environment, the activities that will be needed and the strategies necessary to guide managers. Generally, managers indicated that there was little strategic planning and even those bureaux that had prepared longer-term plans had not received feedback from senior management.

14.39 The Department prepared a Foreign Policy Strategic Overview for 1982-83 to 1985-86 but did not prepare a departmental strategic overview. The advantage of preparing the Foreign Policy Strategic Overview is that it presents the policies and plans of all departments with interests abroad within a global framework, drawing from the Strategic Overviews of the respective departments. However, the disadvantage is that the Department of External Affairs does not have a document of its own that meets the PEMS guidelines for Strategic Overviews.

14.40 There is no review of objectives or alternative strategies for pursuing objectives or for identifying associated costs, benefits and other issues. Further, the Department does not have an internal strategic plan in which it has identified those results for which it will be held accountable. We could not identify a compensating mechanism to provide the strategic direction necessary. There was no evidence of senior management review of bureau strategies to determine their appropriateness for achieving departmental objectives. The result is that individual bureaux operate to maximize their immediate objectives which may not always coincide with departmental objectives. For example, the Cultural program has an immediate objective of promoting Canadian artists abroad. The departmental objective is to support effectively foreign policy objectives, taking fully into account Canada's domestic cultural policies. However, the selection criteria for artists are based on the impact on the artists career and not on the effect such artistic tours will have on achieving foreign policy objectives. Although this activity may be beneficial to the artist there is an implicit assumption that it also contributes to departmental objectives.

14.41 **The Department should review annually its mission, environment, objectives and strategies and, through a strategic plan, provide guidance and direction to managers. This process should also result in the preparation of a departmental Strategic Overview. Assumptions and alternative strategies should be clearly stated and, where appropriate, costed in terms of financial and human resources.**

> The Department agrees. The Department's planning systems and processes are being revised with the objective of providing appropriate and regular guidance to line managers in headquarters and abroad. Structural adjustments within the Department will facilitate this task in general and, more specifically, will be designed in such a manner as to take full account of resource implications. This will entail the preparation of not only a Strategic Overview for the Department but, as well, an Overview of Strategic Overviews to take account of the implications, for this Department, of other government departments' plans.

14.42 **Operational planning and budgeting.** Operational planning is directed almost exclusively at identifying resource levels. There are few instances where the activities undertaken and the resources allocated are identified with specific results to be achieved.

14.43 The preparation of the 1981-82 Multi-year Operational Plan (MYOP) was the Department's first attempt to prepare a formal operational plan. Inputs to the MYOP were prepared by headquarters bureaux for both headquarters and post activities. The Country Assessment Review and ongoing knowledge of post activities provided the geographic bureaux with the information concerning post plans. The bureaux inputs were gathered into a departmental submission which consolidated the resource requirements but not the activities and results. Although adjustments to the resource requirements were made as a result of senior management review, there was no evidence of a detailed review to ensure that planning guidelines had been followed, that assumptions were explicit and that overlaps and conflicting plans had been highlighted for senior management consideration. The MYOP does not provide the information specified in the Guide to the Policy Expenditure Management System in that it does not detail how each program and activity contributes to the objectives of the Department, how resources are linked to activities and how programs and activities can and will be evaluated. The departmental MYOP is an identification of resource requirements without a clear identification of how resources will be used.

14.44 The principal planning document for post activities is the Country Assessment Review. This four or five-page narrative is intended to provide an overall assessment of post operations including highlights of ongoing activities, proposals for new activities or reduction of existing activities, and requirements for additional personnel. The documents submitted by Heads of Post provide a general overview of the posts' past activities and resource requirements. The CAR does not provide a plan for the post that links specific activities with the resources requested. Statements concerning objectives, where they appear, are not quantified, nor is there elaboration of concrete plans to achieve them. The CAR does not form a "contract" between posts and headquarters concerning program priorities, activities and post management.

14.45 We found the Heads of Post considered the CAR to be a key document in their communications with headquarters. However, they stated that feedback from headquarters on the plan was of a general nature and not useful in making operating decisions. The headquarters bureaux stated that the CAR was too general to warrant substantive feedback. Instead, advice and direction on operating matters is given to posts on a day-to-day basis by headquarters.

14.46 Recognizing that the posts needed more direction on their overall objectives, the Department has reinstituted the letter of instruction to Heads of Post. This letter sets out for the Head of Post the Canadian objectives and concerns in the host country. Since the letter of instruction is issued on appointment and was only reintroduced in 1981, not all Heads of Post have such letters.

14.47 One consequence of not having agreed operational plans is that the Department deals with events on an individual basis as they occur. It is necessary that bureaux be in continuous contact with the posts to know what the events are. The telecommunications service provides the most convenient, rapid and reliable method. However, the lack of an agreed set of program priorities between headquarters and posts has resulted in posts being uncertain about what should be reported. Consequently, posts report on everything they think important and in as much detail as possible. This practice causes a severe paper burden as telex messages circulate throughout headquarters and posts, with several officers reading and extracting pertinent information. In the last six years, telecommunications capacity has had to double to accommodate increased traffic volumes.

14.48 The Foreign Policy Formulation and Co-ordination bureaux rely on the telex traffic for information concerning post implementation of the General Relations program. Bureau heads monitor telecommunications traffic to detect problem areas, and senior management intervenes in politically sensitive or difficult cases. In these bureaux, general areas of responsibility have been identified but there are no operational plans that link resources with specific activities and, where possible, with results. The general emphasis of the program at the post is communicated in the CAR; however, these bureaux do not know the specific post activities and milestones that are key to the program delivery. This information is not requested from posts. Program management focuses its attention on world events, leaving little time to plan and monitor routine matters. Decisions on departmental responses to routine events rest largely in the hands of desk officers.

14.49 Even though the programs of Consular Affairs, International Cultural Relations and Information Abroad are more amenable to planning, these bureaux do not have operational plans in place. Furthermore, these bureaux have not asked posts to establish plans for program delivery. The first two bureaux were reluctant to prepare detailed operational plans because they are still awaiting feedback from senior management on their statements of long-term objectives.

14.50 The support bureaux, for the most part, undertake their planning of activities with minimal reference to the plans of the program bureaux. The program bureaux do not provide information to enable support bureaux to assess the overall need for their services. In a few instances, for example the Bureau of Physical Resources, we noted that support bureaux had requested inputs from the program bureaux to help plan their activities.

14.51 We concluded that operational planning in the Department is almost non-existent. As a result, there is little accountability of the program managers to the deputy head; there are no statements of objectives that are results-oriented and linked to resource needs; and there is no framework for monitoring and evaluating progress against stated objectives. Because there are no operational plans, budgets cannot be based on the cost of activities to be carried out and related to the results to be achieved.

14.52 Budgeting is based instead on the previous years' levels with an allowance for inflation and, where fully supported, new initiatives. Although the Department requested that bureau heads review and justify base expenditures, this was not done.

14.53 Overall budget allocations are established for each geographic area. Area Comptrollers in Finance and Management Services work closely with geographic bureaux to establish post budget allocations. The budget submission of the post and eventual budget allocation are set out by reporting object and cannot readily be translated into post program activities.

14.54 For 1981-82, the budget allocation was reviewed by the Senior Management Committee, but there is no documentation of the discussions or rationale for decisions taken. Program Managers were simply informed of the final result.

14.55 In the area of cost increases, we noted that, with a world-wide operation, the Department is faced with currency fluctuations as well as price increases that need to be determined for each post. With the involvement of the post, Finance and Management Services has established an appropriate system of information for determining the cost adjustments necessary.

14.56 **On an annual basis, bureaux and posts should prepare operational plans that meet their planning requirements as well as the requirements of the Policy and Expenditure Management System.**

> The Department agrees. As was noted in respect of the previous recommendation regarding the Department's planning systems revision, the Department is proceeding on the development of a planning process which will meet the requirements of the Policy and Expenditure Management System. This applies to the Department's operations both in Ottawa and in its posts abroad.

14.57 **The Department should ensure that plans are complete, budgets are based on operational plans, and that managers get feedback on plans submitted.**

> The Department agrees. As noted in response to earlier recommendations, the Department's planning systems are currently being revised. The revision will be designed to ensure that the appropriate relationships exist between plans and budgets and, further, that the required dialogue with managers is assured both in the preparation and implementation of plans.

14.58 **Effectiveness measurement.** Effectiveness measurement is the gathering and reporting of data that measure the degree to which a program is meeting its objectives. It has two dimensions: the periodic evaluation of program effectiveness, and ongoing program effectiveness monitoring. When measurement is carried out frequently and regularly as part of the routine management of the program, it is referred to as effectiveness monitoring.

14.59 In External Affairs, the responsibility for evaluation of program effectiveness is assigned to the Evaluation Division of the Office of Internal Evaluation and Audit. Ongoing effectiveness monitoring of individual activities is a shared responsibility between program managers and the Evaluation Division.

14.60 The Evaluation Division was established in July 1979. It is headed by a Director who reports to the Director General, Internal Evaluation and Audit, who in turn reports to the Under-Secretary of State for External Affairs. The Terms of Reference for the Evaluation Unit were drafted to conform with the 1977 Treasury Board directive that required departments and agencies to evaluate programs. The Department's Policy on Program Evaluation was published in 1981, based on the guidelines published by the Office of the Comptroller General. In 1981-82, the staff complement for the Evaluation Division consisted of five and one-half person-years, and $175,000 was budgeted for travel, training and professional services.

14.61 In assessing the structure and management of the evaluation function in External Affairs, we examined the Program Evaluation Policy, the Evaluation Plan and the Terms of Reference for the Office of Internal Evaluation and Audit. We found these to be generally satisfactory. There is, however, an overlap in mandate with the Inspection Service, as discussed later in this chapter. Both are charged with doing program evaluations that include some of the same activities and work units. Unless this situation is resolved, duplication could occur that, in turn, could lead to uneconomical use of evaluation resources. To date, the Inspection Service has not undertaken a program evaluation and the Evaluation Division has completed only one.

14.62 To assess the status of effectiveness measurement and reporting, we examined the work of the Evaluation Division since inception and examined instances of effectiveness monitoring by program managers. Although its work to date may be useful for some aspects of program evaluation, the Division has not as yet attempted to measure program effectiveness. Furthermore, at the current rate of progress, the Division will not be able to meet its commitment to the Comptroller General for program evaluations.

14.63 Our audit also indicated several areas where ongoing effectiveness monitoring by program managers is desirable, possible and not done. Information, Consular and Cultural programs are examples, and, even in the Foreign Policy Formulation and Co-ordination Bureaux, some measurement is possible. We found, however, that effectiveness measurement is not taking place because program managers have not identified the programs' intended effects. There have been a few attempts to obtain information related to program effects but, where this has been done, there are flaws in the approach to both measurement and the use being made of data collected. For example, in the International Cultural Relations Bureau, we noted that recipients of grants in support of international tours are required to assess the effect of their tours. However, recipients are not given instructions on how to carry out such assessments. Moreover, the reports provided have not been used to determine program effectiveness; they have simply been filed.

14.64 We concluded that the measurement and reporting of program effectiveness in External Affairs is unsatisfactory.

14.65 The Department should develop and use ongoing measures of program effectiveness to provide information to managers for decision making.

> The Department agrees. The Department is instituting a complete review of its audit, management review and evaluation functions with a view to the design and development of a revised capability in these areas. In so doing particular care will be taken to ensure that these functions are designed in order to assist managers through the Department. Included in this process will be the establishment of an audit and evaluation committee to bring audit and evaluation results to the attention of senior management.

14.66 The Evaluation Division should place more emphasis on evaluating effectiveness and assisting program managers to develop reasonable and appropriate measures of effectiveness.

> The Department agrees. As noted in the response to the previous recommendation the mandate and functions of the Evaluation Division are being revised. Central to this review will be an effort to develop evaluation measurements of effectiveness suitable to the Department's program managers.

14.67 **Information for Parliament.** The Treasury Board has directed departments and agencies to prepare their Estimates in a new form. In line with this directive, the Department of External Affairs is one of a number of departments working toward a submission of revised Estimates for 1984-85. Implementation of the recommendations contained in this section on program management would contribute significantly to the quality of the Departmental Expenditure plan, Part III of the Estimates.

Human Resource Planning

14.68 Human resource planning is a process of forecasting departmental requirements for human resources, determining human resource availability and matching the two. Gaps or surpluses identified as a result of this process lead to the development of personnel action plans. Because of the dynamic nature of these activities, human resource planning needs to be supported by a current and accurate information system. The dispersed nature of operations and the central management of human resources make this requirement especially important at External Affairs.

14.69 The process central to human resource management at External Affairs is the assignment process. Canada-based rotational employees are pooled and assigned to specific locations and jobs for two to four years. Employees may serve in two foreign postings before returning home.

14.70 Our audit concentrated on the planning process for the Department's rotational foreign service and administrative employees. The audit was conducted mainly in the Personnel Operations Division of the Bureau of Personnel. We also gathered information from a cross-section of headquarters bureaux and posts abroad.

14.71 Two main problems are associated with human resource planning at External Affairs. The first is that the Department does not have in place the structure necessary to support human resource planning. The current deficiencies include a lack of clear definition of the roles and responsibilities of the main players, a lack of integration of human resource planning with other management activities, and a lack of an appropriate information system. The second problem is that human resource planning is based on the assignment process. Although this approach is reasonable for satisfying immediate needs, it does not take sufficient account of future needs and opportunities. We also noted that there were problems of continuity at posts related to the implementation of the rotational policy: key positions being replaced simultaneously; positions being left vacant for several months; a lack of opportunity for replacements to meet departing officers; a lack of formal documentation of post activities and their status; and so on.

14.72 We concluded that current human resource planning and personnel practices cannot ensure that the Department has the right number and type of human resources to meet departmental program needs.

14.73 **Integration of human resource planning with other planning activities.** There is inadequate integration of financial, operational and human resource planning. Human resource planning as performed by External Affairs is separate from other planning systems. We found instances where significant human resource information had not been incorporated into operational and financial planning. For example, human resource shortages at posts, which are known to the Bureau of Personnel, are not communicated to the Area Comptrollers in the Bureau of Finance and Management Services who are responsible for preparing post budgets.

14.74 **The Department should integrate human resource planning with operational and financial planning.**

> The Department agrees that human resource planning should be more closely connected with other planning processes particularly at the aggregate level and is examining ways of introducing an annual human resource review process to parallel and be related to the resource allocation and budgetary cycle.

14.75 **Role of line manager.** Heads of Post and bureau heads have limited opportunity to participate in planning the human resources needed to fulfil their program objectives.

14.76 The Bureau of Personnel stated that the responsibility for human resource planning is shared between personnel managers and line mangers. Line managers believe the responsibility for human resource planning belongs to the Bureau of Personnel. They expressed concern about their limited formal input and admitted to bypassing the personnel systems to get the kind of resources they want.

14.77 Current personnel systems have lost credibility because line managers do not feel that the systems are sensitive to their needs.

14.78 **The Department should ensure that the Heads of Post and bureau heads are given appropriate opportunity to participate in human resource planning and the responsibility for doing so.**

> Heads of Post and bureau heads already participate in great detail in the human resource planning process not only in relation to individual personnel assignments but to the general mix of skills for which they see a need in their area and the methods by which the mix can be achieved. The Department does not see any practical way in which their participation can be further increased nor can these officials be held ultimately accountable for human resource planning because of the centrally managed character of a career rotational personnel system. To provide greater clarity in the human resource planning process, the Department is developing procedural guidelines to outline the nature of the consultative process in terms of both assignments abroad and assignments in Headquarters, differentiating as required between senior, intermediate and junior assignments being proposed. It is the Department's intention to devote greater attention to the non-Foreign Service component of the Department once the systems being established to manage the fully consolidated Foreign Service are operating effectively.

14.79 **Human resource information.** The Department of External Affairs does not have an adequate human resource information system to support human resource planning. Information is required to determine human resource needs, availability and the impact of action plans. The Department has neither identified nor documented what its information needs are for long and short-term human resource planning.

14.80 Currently, information for critical human resource planning decisions (PEMS, recruitment, promotion, etc.) is prepared from an undocumented manual system, controlled and understood by one employee. This system provides statistical information on human resource requirements by location, occupational category and level. It also provides human resource availability information in terms of occupational category and level of current staff.

14.81 More detailed information on the availability of rotational employees is maintained by assignment officers in manual files. These files are not directly related to the central personnel system. Other manual systems in the Bureau of Personnel deal with personnel information on domestic staff, training, recruitment and so on.

14.82 To consolidate the several manual systems, the Department decided in 1978 to computerize the human resource information necessary for cataloguing needs, assessing availability and monitoring action plan implementation. The computerized system was originally estimated to cost $70,000 and was to be in place by August 1979. Although the system was designed according to user specification and within the agreed time, it is still not fully operational. We have estimated costs to January 1982 at more than $350,000. A factor in delaying data input was departmental uncertainty about what employee information to place in the computerized system, given consolidation and foreign service officer reclassification. Although the Department stated that the data already in the new system should match that in the manual system, we could not satisfactorily reconcile or verify basic statistical information produced by the manual system against information produced by the computerized one. Furthermore, the computerized system excludes data essential for human resource planning, such as individual skills, experience, training needs and so on. Thus, the computerized human resource information system, even when fully operational, will not produce all the information necessary for human resource planning.

14.83 In the absence of a reliable and comprehensive human resource information system, a systematic assessment of human resource needs cannot easily take place, nor can accurate projections of human resources availability be made. Action plans based on present information cannot ensure that future needs will be addressed.

14.84 **The Department should reassess its needs for short and long-term human resource planning information and ensure that its computerized human resource information system will meet those needs.**

> The Department considers that its computerized Personnel Management Information System will be adequate for its needs and will contain all the information about education, training, work history, posting preferences and so on necessary for sophisticated human resource planning. The system has been producing routine and special reports to the satisfaction of personnel officers who have been and are using them in the planning and management of departmental personnel since early 1979. Data entry for Phase II which provides for additional planning information has been delayed by the uncertain detailed effect

on the personnel management system of the progressive reorganization of the Department since the announcement of consolidation in March 1980. The organizational situation has now stabilized and the system's second phase covering all Canadian employees of the Department should be complete by the fall of 1983.

14.85 **Human resource requirements.** The Department of External Affairs does not determine its human resource requirements from operational objectives or work plans.

14.86 Although the planning submissions from bureaux and posts described in the previous section on planning could be used as mechanisms to determine human resource requirements, they do not define human resource requirements beyond occupational categories and level. There is no job profile information provided in terms of skills and experience required in relation to proposed post activities, nor is there a qualitative assessment of the current deployment of resources or the strengths and weaknesses of locally engaged staff. This information could be used in determining the demand for human resources. For example, the existence of experienced locally-engaged staff may make it possible to assign a less experienced Canada-based person.

14.87 Information collected by the Headquarters Establishment Review did not provide detail or analysis of current resource allocation, skills and experience requirements or workload distribution.

14.88 Therefore, although the Department has in place the mechanisms to provide the information required to determine human resource requirements, the information that is gathered does not ensure that the appropriate needs have been identified.

14.89 **The Department should determine its human resource requirements from operational plans.**

> The Department agrees. This is in keeping with the comments made earlier on the Department's planning systems.
>
> It should be noted, however, that planning, in general, in the Department has operated in sufficient detail to determine the general type of personnel required and, broadly, the skills needed for each new or redefined position. The aggregates generated by this system were used for recruitment and promotion while individual positions were filled from the pool of existing resources constituting the career rotational foreign service. Where new skill requirements were identified which could not be satisfied by the normal career developmental processes e.g., scientists, specialized secondment programs were established to meet the need.

14.90 **Human resource availability.** There is no systematic determination of current or future human resource availability. Information gathered through formal and informal systems is incomplete and, in some cases, misleading. The Department does not have an inventory of its human resources containing the information essential for human resource planning. As noted previously, information on personnel is currently scattered throughout various manual and computerized information systems.

14.91 Performance appraisals are intended to provide information for human resource planning. Line managers stated, however, that because appraisals were being used primarily for promotion purposes, they were generally inflated. Thus, they tended not to record performance deficiencies or training needs because of their possible negative impact on promotions.

14.92 Records and statistics that are maintained on attrition rates, requests for transfers from rotational to non-rotational status and retirement profiles for Foreign Service Officers are not analysed to identify trends and to determine their impact on the availability of human resources.

14.93 The Department's policy of a career foreign service means that officers are expected to obtain experience in many aspects of departmental operations. This limits the number of similar assignments they are willing to accept. Information on individual career paths is not maintained by the Department, and therefore the impact of career paths on human resource availability is not determined.

14.94 The principal sources of information for determining personnel availability are assignment officers' files on individuals and undocumented discussions with line managers. These files are not indexed according to skills, experience, and so on to permit thorough and rapid search. There is no overall systematic determination of human resource availability for the short or long term.

14.95 **The Department should forecast its human resource availability using current, accurate and complete information on performance, assignments, skills, experience, career path, attrition and so on.**

> This recommendation represents current practice in several respects, but the Department expects to achieve a more systematic approach once the second phase of its computerized personnel management information system is fully operational in the fall of 1983.

14.96 **Action plans.** We found that action plans focused on overcoming short-term crisis situations and did not address longer term human resource requirements. Long-term action plans for meeting human resource requirements generally flow from identifying gaps and/or surpluses in matching of human resource needs and availability. Short-term action plans generally flow from the assignment process at the level of individuals assigned to specific jobs. With the exceptions noted in the training plan, the action plans at External Affairs only address obvious immediate needs.

14.97 External Affairs has several major human resource action plans, including assignment, training, recruitment, succession, career planning and staffing alternatives. In our audit we examined the assignment and training plans.

14.98 **Assignment plan.** Human resource planning at External Affairs revolves around the assignment plan. This plan is the mechanism that provides the most detailed examination of human resources in terms of skills and experience mix. The plan is also the means for determining career paths and on-the-job training for employees. The assignment plan focuses on filling current needs.

14.99 The long-term effects on career development and organizational needs are not being considered by the assignment officers.

14.100 The McDougall Report summarized the assignment activity as follows:

> Management is failing to provide employees with any sense that the system is being run with regard to plan or logic or that it is doing more than simply reacting to current crises instead of planning for the longer term needs of the organization and of the individuals within it.

14.101 **Training plan.** There are two major problems with the training plan. First, there is no systematic assessment of individual and group training needs linked to organizational needs. Second, not all training activities are being carried out in a demonstrably economic, efficient or effective manner.

14.102 On a more positive note, we found that pre-posting briefings, languages training and training for some special skills like telecommunications, that are prerequisites for filling positions are well planned, controlled and evaluated.

14.103 The Department, at both the officer and support level, assigns employees to tasks for which they do not possess all the necessary skills. The Department expects that, through experience on the job, the employee will acquire the skills required to perform the current work and will then be ready for future assignments. This emphasis on on-the-job training is not consistently supported by appropriate planning and implementation mechanisms such as clearly identified responsibilities, overlapping assignments and continuity at the post.

14.104 Heads of Post reported that employees are assigned without the minimum training needed to perform the job. This results in other officers or the Head of Post having to spend a lot of time with new employees. The Bureau of Personnel has stated that staffing problems dictate that employees be posted without training.

14.105 The Department does not always know whether an employee requires training before posting. There is no operating mechanism for identifying training needs or analysing group needs. Consequently, as crises arise, training programs are set up to meet them. For example, Heads of Post and managers at headquarters have identified problems of administration staff at posts being unable to do their jobs. When they complained to the Bureau of Personnel, a training program for Administrative Officers was set up. However, attendance was not formally required.

14.106 There are no measures in place to evaluate the effectiveness of training programs.

14.107 **The Department should regularly determine current and potential human resource gaps and/or surpluses and undertake appropriate and timely action to deal with them.**

> This recommendation represents current practice as evidenced inter alia by the creation of a class of rotational officers dedicated to the administration of posts abroad; the substitution of military personnel for civilian security guards at certain posts abroad; the rationalization of the position structure of Foreign Service clerks; the adoption of a policy based on human resource management considerations for the identification of positions as rotational (Foreign Service) or non-rotational (domestic); the development of a demand model for legally trained Foreign Service officers; the adoption of a policy and procedures to deal with Foreign Service employees who cease to be rotational and are in that sense surplus, as well as continuous central forecasting of recruitment requirements and promotion possibilities for the 11 groups and subgroups of personnel who constitute the career Foreign Service. A few of these operational practices or policies were in place prior to the reorganization of the Department on January 12, 1982; other have been introduced since that date.
>
> More generally the Department considers that short-term gaps and surpluses can usually be balanced through the assignment and secondment process. Otherwise it believes that the unpredictable, changing and highly varied environment in which it operates coupled with the existence of a career personnel system dictate the need for a long-term personnel strategy rather than a series of long-term plans which would be quickly outdated. This strategy consists essentially of recruiting personnel in all groups who have the qualities of mind and personality which will permit them to adapt and even thrive on the

changes to which they will be subject and to train and develop the potential in these employees through the assignment process coupled with appropriate formal training. The essence of foreign operations is flexibility and the personnel system and the personnel in the system must be recruited at the outset and managed thereafter so as to display that flexibility.

14.108 The Department should develop a more systematic method of determining training needs and means of meeting those needs.

The Department agrees that training needs should be identified as methodically as possible and that its delivery of training should be improved in those areas where it is not satisfactory. These points have influenced the recent reorganization of its personnel sector in which training officers have been included in the units managing each element of all departmental personnel so as to bring the training function closer to regular operations. A training policy and program have also been developed and implemented to cover the first two years of newly recruited foreign service officers' careers. The Department will be seeking to rationalize its training and development activities further in light of its new organization and enlarged role but the characteristics of the Department's personnel, especially the foreign service - mobility, dispersal of half the personnel around the world, a generally volatile and varied environment, and resource constraints - will continue to present major challenges to the effective delivery of training.

Management of Accommodation Abroad

14.109 The Department of External Affairs is responsible for providing and managing accommodation for Canada's foreign service personnel at 120 posts in 83 countries abroad. Through its Bureau of Physical Resources, the Department manages a portfolio of Crown-owned and leased properties comprising 136 chanceries (38 Crown-owned) 102 official residences (63 Crown-owned) and 1,511 staff quarters (407 Crown-owned).

14.110 The Department's capital and operating budget for property abroad amounted to $73.5 million in 1980-81, of which $39.4 million was for property rental and $20.8 million was the Long-Range Capital Program (LRCP).

14.111 The LRCP was approved by Treasury Board in May 1974. Its objective was "to own a significant proportion of offices, official residences and staff accommodation (abroad), except where economic factors or political instability preclude this course." To achieve this objective, Treasury Board approved annual budgets, totalling almost $106 million, for the years 1975-76 to 1980-81.

The Mexico City chancery, shown above, was the Department's first major design and construction project completed under the Long-Range Capital Program.

14.112 Of that amount, the Department has spent $85.5 million in acquiring and constructing facilities abroad. The acquisition portion of the program has been responsible for acquiring 139 staff quarters at a cost of $18.5 million, 19 official residences for $5.9 million and 9 chanceries for $30.4 million. The major chancery acquisitions included Paris, Caracas and Bogota. The design and construction activity has expended $25 million and has seen the completion of the Mexico City chancery. As well, several major chancery projects such as Washington, Belgrade, Moscow and Tokyo are at various phases of the design and construction process. The balance of the funds has been spent on minor capital projects. In a report prepared in 1981, the Department estimated that the properties acquired in the first 6 years of the program had produced total rental savings of $13.4 million.

14.113 Our audit concentrated on acquisition projects and design and construction projects because of their individual financial significance. Our work was carried out primarily at headquarters, supported by field visits to 14 posts where we reviewed various aspects of the accommodation program.

14.114 We visited new chanceries in Abidjan, Bogota and Caracas, Paris and Mexico City.

14.115 The Abidjan chancery project ($2.9 million) struck us as an excellent example of good communication and co-ordination between the post and headquarters. The post took an active role in local market surveys, site selection and supervision of the required fit-up. During our visit, the post indicated that headquarters had provided excellent support and co-operation.

14.116 The Bogota chancery acquisition ($2.7 million) was some five years in the making, because of uncertainty about availability of funds, poor communications between headquarters and the post and the volatility of the Colombian real estate market. However, once matters got on track, the project was executed in good time, and the space acquired appears to meet both personal and program requirements.

14.117 Caracas, like Bogota, presents a difficult real estate market. The time needed for examination and analysis of available properties, the preparation of the required documentation and the flow of the approval process in Ottawa made it difficult to secure the needed chancery space. Nonetheless, a new facility ($4 million) was eventually acquired. It solved the problem of inadequate space and sharp rent increases for office accommodation in Caracas.

14.118 The Mexico City chancery ($10.3 million) was the Department's first major design and construction project under the LRCP. By most accounts, the new chancery is a fine example of Canadian architecture and Mexican craftsmanship. Our comments on Paris appear later in the chapter.

14.119 Notwithstanding individual successes such as those noted above, our review of the Department's management of the accommodation acquisition function revealed a need to strengthen the up-front planning for projects. In particular, the approach used to identify accommodation needs does not conform with the Department's Property Management Manual. In addition, evaluation of projects and determination of priorities is not based on a documented set of guidelines or factors to be considered. Finally, more emphasis needs to be placed on the feasibility study stage, especially the determination of repair and refurbishing costs when existing structures are purchased.

14.120 These deficiencies take on added significance in an environment that favours an informal approach to decision making. They result in a system that tolerates and even encourages unnecessary involvement by insiders and outsiders alike. This blurs the accountability of the Bureau of Physical Resources for program delivery and produces a constant shifting in priorities, as demonstrated in Table 1.

14.121 This Table and the case histories at the end of this section provide some insight into the basis for our conclusions. It should be noted that the deficiencies reported are not the sole responsibility of the Bureau of Physical

Resources. Indeed, the senior levels of the Department, both at headquarters and at posts, have been, at times responsible for tolerating actions that compromise the economical and efficient delivery of the accommodation program.

Table 1

Deviations From Plans
Acquisition Sub-program of LRCP

(thousands of dollars)

	1976-77	1977-78	1978-79	1979-80	1980-81
Acquisition Plan	$ 7,260	$ 15,120	$ 11,931	$ 15,020	$ 11,645
In Acquisition Plan but not implemented	4,147	8,825	5,940	5,265	1,446
Percentage not implemented	57%	58%	50%	35%	12%
Expenditures in Acquisition Plan and implemented	3,519	7,755	3,945	8,726	5,466
Expenditures implemented but not in Acquisition Plan	$10,974[1]	$ 1,112	$ 2,197	$ 4,274	$ 1,550
Total Expenditures	14,493	8,867	6,142	13,000	7,016
Percentage of Expenditures not in Acquisition Plan over Total Expenditures	76%	13%	36%	33%	22%

[1] Includes Paris chancery acquisition $9,350 (target of opportunity)

14.122 Although a certain flexibility has to be maintained to take advantage of opportunities - there are valid reasons why some proposed acquisitions may not be carried out as planned - we observed that from fiscal years 1976-77 to 1980-81 more than 42 per cent of the funds planned for acquisitions were not used for the purpose identified. As much as 58 per cent of the acquisition plan in one year was not implemented. During the same years, a number of properties that were not part of the plan were acquired: on average, 41 per cent of expenditures for acquisition went to acquire such properties.

14.123 A reorganization of the Bureau of Physical Resources during the course of our audit and a response, in the form of 38 additional person-years, to its long-standing claim of being severely understaffed should provide for improved performance in the years ahead.

14.124 **Identification of accommodation needs and definition of requirements.** The first step in the asset acquisition process is the identification of needs based on program objectives. At External Affairs, this means determining what the posts need in terms of office and residential accommodation. These needs are influenced by factors such as changes in the number of program staff at posts, the condition of existing facilities, the local real estate market and so on. To gather and analyse this information, the Department's Property Management Manual calls for posts to prepare an annual Post Development Plan.

14.125 Our field audit of 14 posts revealed that none of these has expressed its needs by formulating a Post Development Plan as required by the manual. The Department, on the other hand, has not requested the Post Development Plan as an input to planning. At the same time, the Department has not explicitly communicated to the posts the substance of the LRCP, and all the posts audited claimed to have insufficient knowledge of the short and long-term capital accommodation plans of the Department.

14.126 Instead, the Bureau of Physical Resources has instituted a number of procedures to determine needs. It reviews the posts' Country Assessment Reviews for indications of changes in staff complement. It monitors telegram traffic relating to accommodation problems. It relies on personal and written representations by heads of posts and others to provide input. It consults with the geographic bureaux as to needs and priorities within the respective regions. The information garnered from these various sources is then incorporated into an annual plan which is reviewed by the geographic bureaux and eventually presented to senior management for approval.

14.127 These procedures have merit and represent an improvement over past practices, although they are by no means complete or definitive. The approach does not provide the ultimate user of the space, the post, with the opportunity to make a formal and detailed contribution to the annual plan. As a consequence, some posts undertake end runs around the Bureau of Physical Resources to achieve their goals. This was the case for Porta Latina, Philadelphia and Tokyo, which are discussed later in this section.

14.128 Another important step in the planning phase is translating accommodation needs into a statement of requirements, as stipulated in section 112 of Treasury Board's Administrative Policy Manual. At External Affairs, this means converting a need for space, identified in broad terms, into a statement that incorporates the specific requirements of the post in terms of square footage, representational needs, cultural/display areas, security factors and so on. This requires a good deal of consultation and co-ordination between the post, the program bureaux (political, trade, cultural, etc.) and the functional bureaux (physical resources, security, telecommunications, etc.).

14.129 However, as described in the earlier section on Program Management, the Department's planning systems are not adequate. Consequently, it is often difficult to obtain timely, 'hard' information from program bureaux as to projected staff complements at posts and the related program needs. Similarly, changes in specifications by users at an advanced stage of proceedings have produced a good deal of frustration and resulted in the inefficient use of resources. A case in point is the Moscow chancery, where changes in security requirements at a late date resulted in the project being shelved. Details are provided in the attached case history.

14.130 **External Affairs should follow the procedures outlined in its own and Treasury Board manuals relating to the identification of accommodation needs and definition of requirements.**

> The Department agrees. The Departmental Property Management Manual is under revision to more accurately reflect the relative roles of posts and headquarters in the property planning process, and the applicable provisions of the Treasury Board manual.

14.131 **Determination of priorities.** Once needs have been identified, the next step is to establish priorities among competing projects. In a situation where the number of potential projects far exceeds the funds available, and in an environment where projects need to be rescheduled because of budgetary, physical or political constraints, the Department needs a set of guidelines or criteria to evaluate and rank projects, taking into account factors such as economic benefit, political stability, personal security, budgetary constraints and so on.

14.132 Although the Department's current approach calls for the geographic bureaux to provide input and agree to project priorities, the guidelines and factors to be used in this process are not clearly documented and communicated within the Department. Thus, the process is susceptible to a wide variety of interpretations. For instance, although the LRCP was specifically approved by Treasury Board to counter the spiraling rise in rents paid for accommodation abroad, the Department has not specified what importance should be assigned to economic pay-back in relation to other factors when assessing competing projects.

14.133 **The Department should develop and communicate a set of guidelines for evaluating accommodation needs and establishing priorities.**

> The Department agrees. The Department has a system for collecting and priorizing accommodation projects which reflects the variety of accommodation requirements encountered abroad and the need to

match a flexible response to a variety of circumstances. This system will be described and consolidated into a single document.

14.134 **Feasibility studies and benefit-cost analysis.** The feasibility studies which were put forward to senior management and to Treasury Board did not follow a standardized approach that would allow making comparisons of proposed projects.

14.135 None of the cases we examined indicated that the project and its alternatives were evaluated by a comprehensive feasibility study as stipulated in the Treasury Board Administrative Policy Manual or by commonly accepted management practices.

14.136 In major projects such as Paris, Moscow, Mexico and Tokyo, the benefit-cost analyses were limited to a calculation of the possible rental savings related to Crown ownership.

14.137 The consequences that flow from these analytical practices are similar to those noted earlier in the other planning components. Senior management and Treasury Board are not presented with well chosen and analysed alternatives, and the selection process does not always ensure due regard for economy. The Dallas official residence and the Paris chancery are examples of what can happen when repair and renovation costs are not properly investigated and costed at the feasibility study stage.

14.138 **The Department should prepare feasibility studies and benefit-cost analyses for projects in accordance with the format specified in the Treasury Board's Administrative Policy Manual.**

> The Department does employ a format applicable to foreign operations developed in part with Treasury Board participation. Moreover, the relative small scale of Canada's operations in some locations and, frequently, the limitations under local property law prevent application in all cases. However, the Department will modify these processes in the near future.

14.139 **Project review.** The Department does not undertake a comprehensive review of the projects after completion to determine adherence to requirements definitions and specifications, budgets and completion targets.

14.140 For the Department, project completion and closure occur when the architect or project manager take delivery of the project after he has inspected it and declared that it conformed to the specifications. This particular procedure is formally required and it has invariably taken place. For the cases that we examined, nothing occurred beyond that procedure and, following the final acceptance of the project, the related documentation was filed. Consequently, the Department did not benefit from project experience. Where mistakes have been made and problems encountered, a project review provides a valuable mechanism for analysing causes and developing improvements.

14.141 **The Department should enforce its regulation that a project manager close out each project with a project review presented in an established format.**

> The Department agrees. The Department does have a review underway of the Paris Chancery project and another is presently planned for the Mexico City Chancery. In all future projects, this will be incorporated as a standard requirement.

Accommodation Abroad - Case Histories

14.142 There is no such thing as a typical case when providing accommodation abroad. Each locale has its particular set of conditions, problems and personalities that make it unique. From the 46 purchase/construct/lease cases that we reviewed, we have selected the following in support of the observations we have made. In our view, these cases provide some insight into some of the complexities inherent in providing working and living accommodation for a rotational foreign service.

14.143 **Dallas.** Following the decision to change the status of the Dallas post, the Department suggested to the Head of Post that he should start looking for an official residence with better representational standards than those of the current Crown-owned property. The Head of Post and a team from headquarters reviewed a number of purchase possibilities. However, in general, prices for the desired accommodation were above the alloted budget. Following further market inquiries and after raising the amount available for a purchase, the Department narrowed its interest and initiated negotations for a house situated on Royal Lane.

14.144 The Department did not undertake an adequate engineering and cost estimate of the renovation and fit up costs of the Royal Lane property. The report provided to the Department on the condition of the house was a rough estimate only and was not sufficient to support a purchase price of $375,000. The Department found out subsequently that renovation costs to the house would be far in excess of the original $25,000 budgeted. A thorough inspection of the residence carried out after completion of the purchase indicated that renovations would exceed U.S. $150,000.

14.145 **Philadelphia.** At this post, the forthcoming termination of the chancery lease triggered the search for alternate space. Two sites were considered; one, in the North American Life Building for a long-term lease at reasonable rates in a well located fully renovated building, the other in the Logan

Square Building for slightly larger space at higher rates in a prestigious building yet to be erected. The summary economic analysis in Table 2 indicates that the space in the Logan Square Building would have cost $538,000 (U.S.) more on a net present value basis over a 10-year term than the space in the North American Life Building. A departmental representative reported that the latter building was clearly a better choice and that a contract should be signed since the owners of the building had provided the Crown with a generous amount of time to sign the lease, and the option time was running out. Meanwhile, the post persisted in promoting a move to the other site and, while the choices were being argued over, no decision was made. As a result, the option expired, and the Department had to negotiate an extension of its existing lease.

Table 2

Departmental Data

	North American	1 Logan Square
Location	Good	Very good
Effective rent per sq. ft.	$16.00 (U.S.)	$24.74 (U.S.)
Annual rent	$144,000 (U.S.)	$284,000 (U.S.)
Cost of 10-year rent, current $	$1,440,000 (U.S.)	$2,840,000 (U.S.)
Cost of 10-year rent, present value in constant $ (government borrowing rate at 17%)	$671,000 (U.S.)	$1,209,000 (U.S.)
Term of lease (base rent)	5 to 20 years	5 years
*Cost of building services and taxes adjusted	Annually	Annually
*Cost of building maintenance	Average	High
*Energy efficiency	Excellent	Good
Parking	Public $80 per month	$100 per month

*not provided in $ terms

14.146 This type of case usually results in additional travel and administrative costs and compromises the efficient delivery of a program by those charged with that responsibility.

14.147 **Lagos.** The annual rent for the chancery has escalated from an initial $43,000 in 1975 to the current $733,000, or $885 per square metre, some of the Department's most expensive rented space. In keeping with the LRCP's objectives, Lagos was a prime candidate for substitution with Crown ownership.

14.148 On 27 September 1977, Treasury Board recommended that "every effort be made by your Department to begin a building program at the earliest possible date, to ensure that Crown-owned accommodation will be available for occupancy upon the termination of this lease or sooner."

14.149 Given the present market, it seems evident that, if construction had started four years ago as recommended by Treasury Board, the building would now be completed and expensive rental costs avoided. Instead, the Department has had to sign a five-year lease at $733,000 per year to allow sufficient time for constructing other space. To date, construction has not started, but architects have been appointed to design the chancery.

14.150 **Moscow.** The need for a better facility in Moscow has been recognized by the Department and agreed to by Treasury Board as far back as 1972. By 1976 a lease had been secured on a tract of land, and negotiations were proceeding with regard to building design, materials to be used and so on. Plans called for the construction of a diplomatic complex, incorporating chancery and residential space. The project was approved by Treasury Board in December 1978. Of the amount approved, six and one-half per cent of the costs related to security considerations. By June 1981, working drawings had been finalized and the project approved by the Department's senior management. The total project cost had almost doubled, and thirteen and one-half per cent of costs were security related. In the month that followed, security-associated costs escalated to twenty and one-half per cent. The dramatic last-minute change in security requirements, which, in our view should have been defined earlier, forced the Department to suspend the project because it could no longer be accommodated within the Department's budget. To date, approximately $3 million has been expended on this project, and this cost will have to be written off unless the particular design is eventually used.

14.151 **Porta Latina.** Porta Latina is a five and three-quarter acre park-like property in Rome which includes a 6,500 square foot villa built in the 1930s. In the Department's own words, "it is one of the few remaining grand estates in the centre of historic Rome." The property was purchased in 1950 for $186,000 with blocked Italian currency received as settlement of a war debt. Between 1965 and 1980, six study trips to Rome were undertaken to review what might be done with the property. Each time the conclusion was the same: there was no economic rationale for developing it.

14.152 Although the property was described in several reports as an eyesore, "a disgrace and embarrassment to Canadian officials", and its holding could not be justified in terms of program needs or economics, the possibility of selling the property was not seriously pursued. Documents on file indicate that there were no restrictions to selling the property. Although a firm offer (unsolicited) of $765,000 was received in 1972 and further interest was demonstrated in 1975 when the property was appraised at $1.25 million, both were rejected. Resistance to selling the property emanated primarily from the post and geographic bureau, in spite of the fact that there was no demonstrable need for the property.

14.153 **Paris.** Prior to completion of the recent $20 million project in Paris, Canadian Government operations were located in three rented and three Crown-owned premises. Documentation on file indicates that the need for more space was recognized by the post as early as 1974. In July 1976, the Kodak building complex immediately adjacent to the existing Canadian Embassy was offered for sale. Because the Department was also pursuing other alternatives that appeared more suitable, this property was not actively considered. By September 1976, the other alternatives had been exhausted and, once again, the Department focused its attention on the Kodak complex. By this time, the buildings had been purchased by a group of French developers who offered to sell part of the complex to Canada. After protracted negotiations, Canada purchased No.37 and No.37 cour avenue Montaigne, approximately half the Kodak complex, for a price of around $9 million. The property purchased was an old building which had inadequate electrical and mechanical services. This fact was recognized by the Bureau of Physical Resources prior to purchase, and provisions were made in the initial renovation budget to install mechanical services and renovate the newly purchased building at a cost of approximately $2 million. These renovations were deemed to be the minimum requirements to render the building habitable and to bring it up to current building standards.

14.154 A Canadian architectural firm was employed to do an in-depth architectural study after the building was purchased. This study highlighted the inadequate electrical and mechanical systems and problems with roof structure, foundation and floors. It found that the building standards in the property acquired were not compatible with those of the existing chancery. The architect also recommended that the project scope be expanded to include renovation of the existing chancery and that the three-building complex be replanned in totality to provide the best functional arrangement.

14.155 Although the Department had previously limited the Paris renovations to the newly purchased building, it accepted the recommendation of the architect and submitted to Treasury Board a proposal to extend the scope of the project to include the renovation of the existing chancery and the integration of the buildings. Eight months later, Treasury Board approved the increase of $9 million in the estimate. The submission was approved in Canadian dollars, and currency exchange and fluctuations in the Construction Index (beyond the control of the Department) were to be absorbed and accounted for in the project's contingency account.

14.156 Construction progressed during 1980 and 1981 with serious concerns noted on the file regarding reporting relationships and authority for approval between headquarters and on-site project managers. In addition, unfavourable currency fluctuations and increased construction costs forced the Department to identify areas in the original specifications where costs could be reduced in order to stay within the approved budget.

14.157 In summary, the Department decided to recommend to Treasury Board a change in the scope of the Paris project after the contiguous office accommodation was acquired. This was done to integrate the three buildings fully as well as to provide for renovations to the original chancery. These changes in project scope resulted in an increase of $9 million to the initial proposal.

14.158 **Tokyo.** The need to provide more and better space in Tokyo has long been recognized. Part of our embassy staff currently occupies rented space while others are accommodated in a temporary building on the Embassy site. In 1975, Treasury Board approved development of a new chancery and associated facilities at a cost of $15.2 million on the existing site. This amount was subsequently increased to $17.5 million in 1977. Although the original plans called for renovations of the official residence, which is known as Marler House (also located on this site), the 1977 revised plans did not. The Department contemplated instead eventually demolishing the residence and replacing it. The reasons for this, in the words of the then Under-Secretary, were that "the Residence ... is extremely large, (requiring eight servants) expensive to renovate and maintain ($220,000 in 1979) and occupies a disproportionately large area of this valuable site." Although the house does not meet any criteria for an historic site and cannot be justified on the basis of program needs or economic rationale, there is strong pressure within the Department to retain it.

The Tokyo Official Residence is shown here. Although the house does not meet criteria for an historic site and cannot be justified on the basis of program needs, there is strong pressure within the Department to retain it.

14.159 After 1977, while the technical drawings were being prepared, the cost to build in Tokyo rose sharply due to inflation and the diverging values of the dollar and the yen. By February 1979, the cost of construction had increased to $25 million and caused the Department to consider other options for redeveloping its property. Among these was the possibility of a joint development with a private sector partner. This would provide new and adequate chancery space, would not require capital funds, and might even produce an immediate cash return to the Crown. In December 1980, the Department's Senior Management Committee approved the investigation of the joint-venture possibility, that would retain the existing official residence. Since then, a number of proposals have been received from Japanese developers, which would resolve the acute space problems of our embassy in Tokyo by replacing inadquate and expensive rented space with a modern integrated facility. Although the accommodation need is obvious and development of the property would produce substantial economic benefits and facilitate program delivery, correspondence in the files indicates that resistance to these proposals from some quarters in the Department has been successful in stalling development of the property.

Telecommunications

14.160 This section of the report discusses only the carrier of the message, and not its content. The use of telegrams for program delivery purposes is discussed under Program Management.

14.161 The Department of External Affairs acts as a service agency that provides and manages a world-wide telecommunications network for record transmission between all government departments and agencies and their representatives at posts abroad, except for operational units of the Department of National Defence. The Department estimates that approximately 50 per cent of the services are provided to other departments, at no cost to them.

14.162 The network provides three methods for communications -- by telegram, by letter sent by diplomatic bag or ordinary post and by telephone. Its main objective is to ensure speedy, efficient and secure communications.

14.163 Telegraphic communications is a fundamental part of the overall telecommunications network at External Affairs. In the past few years, the Foreign Service Officer has relied more and more on the telegram to convey a variety of information related to his duties.

14.164 The growing need for disseminating information and for transmitting reports rapidly, the dramatic decrease in cable rates and unit telegraphic costs and the introduction of faster enciphering have all contributed to an increase of almost 100 per cent in telegram traffic in the last six years. At present, the system handles about 25,000 telegrams daily.

14.165 Messages are transmitted either through the public network (telex) or by way of a leased circuit for the exclusive use of External Affairs. The Department's computerized message switching system allows direct communications between Ottawa and posts abroad, as well as among posts.

14.166 All classified telegrams are sent in cipher. Enciphering is done either manually or by machine. Manual or "book-ciphering" is now used only as a back-up system.

14.167 The Canadian Diplomatic Courier Service provides secure delivery of official classified material and equipment between Ottawa and Canadian missions abroad through escorted and unescorted diplomatic bags. External Affairs has 18 couriers whose full-time jobs consist of carrying bags to and from overseas posts (approximately 4,800 bags per year). It is estimated that 25 to 30 per cent of all material sent by courier is for other departments.

14.168 Approximately 15 per cent of the Canada-based strength of the Department is involved in providing telecommunications services. The direct costs of telecommunications in 1980-81 (not including the Passport Office or telephone services) were $17 million.

14.169 The telecommunications network of the Department of External Affairs satisfies user needs for fast and reliable communications. The Department has adapted cautiously and, in many ways, remarkably well to the communications explosion and to the phenomenal changes in telecommunication technology of the past two decades.

14.170 Several modifications have been made to improve the system's efficiency and its cost-effectiveness. Various plans for streamlining certain operations or adding new equipment have been developed and implemented and others are currently under consideration. Changes were made in response to user requirements and technological evolution and were well planned and executed.

14.171 We found the Department complied with the Treasury Board's Guide on Telecommunications Administration. The Guide requires the Department to ensure that the cost of telecommunications is accounted for and made visible and that senior departmental management is provided with the necessary information to make rational choices in acquiring and administering telecommunications services.

14.172 We found that the Department had in place administrative procedures and systems that provide the necessary operational data to management on a regular basis.

14.173 We concluded that the telecommunications network of the Department of External Affairs was operated with due regard for economy and efficiency.

Financial Management and Control

14.174 For 1981-82, the Department had a budget of $450 million and administered approximately $100 million on behalf of other government departments relative to their programs abroad.

14.175 The Deputy Under-Secretary, Management, has been designated as the Senior Financial Officer, and the Director-General of the Bureau of Finance and Management Services has been designated as the Senior Full-time Financial Officer.

14.176 The Bureau's staff of 141 is responsible for all aspects of financial management and the provision of management and computer services to the Department. The Director-General has been delegated functional authority over financial officers in the larger headquarters bureaux and staff performing financial administration functions at all posts abroad.

14.177 In our 1975 Financial Management and Control Study, we made a number of recommendations which we believed would strengthen and improve the financial function in the Department. Although a number of positive steps have been taken, our current examination revealed that some of the key problems identified in our 1975 Study have not yet been corrected.

14.178 In our opinion, the Department needs to develop a plan for implementing our 1975 Financial Management and Control Study recommendations to provide for continuing improvement of the financial function in the Department. The central financial function needs to revise current systems to provide more complete information for managers.

14.179 **Financial manual.** The Department's Manual of Financial Management was not up to date; several important sections relating to the financial system, headquarters accounting and verification procedures and financial reporting had not been completed. The diversity of the operating environment, the impact of staff rotation and the locating of financial officers in large semi-autonomous headquarters bureaux makes co-ordination of financial management difficult. A complete and up-to-date financial manual is therefore essential to communicate all the requirements of the Department's financial administration and control systems.

14.180 The Department should assign responsibilities and establish a timetable for completing the Manual of Financial Management. Procedures should be developed to ensure that the manual is kept up to date and adhered to.

> The Department agrees. While the Department communicates a number of its requirements through the medium of financial management letters, the Financial Management Manual will be updated and completely rewritten during 1983.

14.181 **Financial accounting systems.** External Affairs records its financial transactions in two separate systems. The Department of Supply and Services reporting system produces responsibility centre budget and transaction reports, and the departmental system mainly reports on allotment control accounts.

14.182 The DSS system produces monthly reports on a cash basis and does not contain outstanding commitments or details of uncommitted funds. We noted that the monthly budget figures are a one-twelfth allocation of total allotments and do not reflect any pre-determined expenditure pattern or operational plans.

14.183 The headquarters responsibility centres prepare monthly cash expenditure forecast reports which show actual expenditures, forecast expenditures for the balance of the year, and variances from budget. Posts issue similar reports four times a year in June, August, October and January. These reports are prepared manually and are used by the Bureau of Finance and Management Services to provide a variety of information including the status of allotments for cash control. However, because commitments and periodic budget amounts are not included in these reports, they do not provide a complete picture of departmental expenditures, free balances and deviations from budget for senior management review.

14.184 The only complete financial statement issued by the Department is at year-end for the Public Accounts.

14.185 Because the Department of Supply and Services' system and the Department's own system did not provide complete information, three responsibility centres maintained their own manual records and generally used the DSS reports only for reconciliation purposes.

14.186 The information generated by the present system could be improved if budgets based on anticipated rates of expenditures and accurate commitment data were included. Comprehensive budget variance analyses could then be prepared by each responsibility centre, division and the Department in total.

14.187 These steps would provide better information on the use of the Department's resources. Managers would have more complete information to help control costs, relate actual to planned expenditures and provide meaningful analysis of variances to senior management. The need for manual financial records currently being maintained by three responsibility centre managers might also be eliminated.

14.188 **The Department should define the financial information needs of the responsibility centre managers and other users of financial reports and develop systems that meet these needs.**

> The Department agrees. This recommendation will be taken into account in the development and implementation of revised accounting and financial reporting systems to meet the needs of the newly reorganized Department of External Affairs.

14.189 **Financial training.** Except for the senior staff at headquarters, performance evaluations for personnel involved in financial administration are not used to identify financial training needs.

14.190 Senior financial officers have no input into preparing performance evaluations, career planning and professional development for financial officers outside the Bureau of Finance and Management Services. As a result, the Department has no assurance that staff with financial responsibilities have adequate qualifications, experience or training to carry out their responsibilities.

14.191 **The Department should develop a formal plan for training and evaluating financial officers, ensuring that training and development needs are identified, alternatives are assessed and costs are identified. The effectiveness of such a plan should also be assessed and reported.**

> The Department agrees. In connection with the reorganization of the Department of External Affairs, the Department will develop a formal plan for training and evaluating officers carrying out financial functions outside the Bureau of Finance and Management Services and ensure that training and development needs are identified.

14.192 **Senior financial officers should be involved in selecting, appointing, training, evaluating and promoting all financial staff.**

> The Department agrees. Career planning and professional development for financial officers outside the Bureau of Finance and Management Services will be given greater emphasis with senior financial officers having a greater involvement in selecting, appointing, training, evaluating and promoting all financial staff.

14.193 **Financial control systems.** The imbalance between resources allocated to and benefits derived from certain activities within the Bureau of Finance and Management Services, reported in our 1975 FMCS Study, has not been rectified.

14.194 The Post Accounts Section of the Bureau performs a post-audit on the financial returns submitted by each of the posts abroad. For 1980-81 this activity used 26 person-years. A recent estimate by the Office of Internal Evaluation and Audit indicated that the Section's annual operating expenses were approximately $800,000, half of which was for salaries. For the year ended 31 March 1981, expenditures verified by the Post Accounts Section amounted to $127 million.

14.195 The Department states that the reason for the Section's function is to comply with section 26 of the Financial Administration Act and the Account Verification and Payment Requisition Regulations requiring that accounts be verified prior to payment. We noted that the verification procedures carried out by the Section were normally performed about 90 days subsequent to the month of disbursement of the funds by the posts abroad. It appears that, although they have not been formally delegated the authority, section 26 and Account Verification procedures were being carried out by the posts, and the work of the Post Accounts Section for the most part is a duplication of that effort.

14.196 The Section was spending 82 per cent of its time on the voucher and authority audits where the type of errors were mainly those involving the failure to comply explicitly with regulations and did not involve significant dollar amounts. There were no predetermined materiality limits, nor was there a clear definition of what constituted an error.

14.197 The Department should review the mandate, role and goals of the Post Accounts Section with a view to reducing its scope of activity.

> The Department agrees. As part of an overall review of financial training needs as referred to in the previous recommendation, a review will be undertaken of the mandate, role and goals of the Post Accounts Section.

14.198 The Department should establish and document an appropriate methodology for the verification of post financial returns, including prompt reporting and follow-up.

> The Department agrees. The Department will review the current methodology being applied and establish and document a more appropriate methodology for the verification of post financial returns.

Internal Audit and Inspection Service

14.199 This section covers the operations of two distinct units, the interdepartmental Inspection Service, charged with performing audits and evaluations of programs at posts on behalf of all foreign service departments, and External Affairs' Office of Internal Evaluation and Audit. Although the two are organized as separate units, their overlapping mandate and interdependence on resources, the advent of Consolidation, and the January 1982 realignment of departmental responsibilities made a combined report more meaningful.

14.200 The Inspection Service was set up in February 1979 to complement the audit and evaluation programs of departments and agencies operating abroad. It was charged with the responsibility to audit the compliance of Canada's posts abroad with established policies, procedures and practices and to assess the effectiveness, efficiency and economy of programs abroad and to assist ICER in improving the quality of management of foreign operations. The Service is headed by an Inspector General who operates as an agent of the Committee of Deputy Ministers on Foreign and Defence Policy and reports through its chairman, the Under-Secretary of State for External Affairs.

14.201 The Service is staffed by personnel who are assigned from the main foreign service departments and by financial auditors drawn from External Affairs' Internal Audit Division. The Inspector General has informed us that he does not have the final decision in the selection of these officers.

14.202 For the fiscal year 1981-82, the Service cost approximately $1.1 million and used 19 person-years, including the time of financial auditors assigned to it by the Internal Audit Division of the Department of External Affairs.

14.203 The Office of Internal Evaluation and Audit was established in 1979. The Office is organized in two divisions, Internal Audit and Program Evaluations. The head of the Office of Internal Evaluation and Audit reports direct to the Under-Secretary. For the fiscal year 1981-82, the Internal Audit Division cost approximately $430,000. The operations of the Evaluation Division are discussed in the section of this chapter on Program Management.

14.204 Our examination of the Inspection Service and Office of Internal Evaluation and Audit revealed significant problems in two key areas:

- the mandate and role of each group; and
- the professional capability of the Inspection Service to carry out its audit and evaluation responsibilities.

14.205 As directed, the Inspection Service had concluded its tours of all posts abroad within the suggested three-year period. However, it has operated primarily in a consultative/management advisory capacity rather than as an audit/evaluation group as required by its mandate. Its reports contain useful recommendations for improvement, a good number of which have been implemented. However, the activities of the Inspection Service do not meet the standards of, and are not a substitute for, internal audit as prescribed by the Office of the Comptroller General.

14.206 For its part, the Internal Audit Division had completed only one headquarters audit at the time of our review. The Division has not implemented the Departmental Policy on Internal Audit or met the Internal Audit Standards of the Office of the Comptroller General.

14.207 We concluded that senior management was not being provided with an independent appraisal of the economy and efficiency of departmental operations.

14.208 **Audit mandate.** The mandate of the Inspection Service overlaps in part with the mandate given to the Internal Audit Division of the Department of External Affairs and does not permit either of them to carry out comprehensive internal audits which, in our opinion, would best suit the needs of the Department.

14.209 The Standards of Internal Audit issued by the Comptroller General require that every department have an independent internal audit function whose scope "shall encompass all aspects of a department's operations". The standards also require that the internal audit function be organized in a single group, independent of the operations it must review.

14.210 The mandate of the Inspection Service requires it to "carry out systematic evaluations and audits of the operations of Canada's posts abroad". This mandate duplicates the responsibilities assigned to the Internal Audit Division of the Department. To date, the problem of conflicting mandates has been resolved by having Inspection Service audit only the operations at posts abroad while the Internal Audit Division restricted itself to audits of the headquarters functions.

14.211 The practice of splitting the audit of overseas and domestic operations and having two distinct audit groups auditing and reporting on separate parts of the same or complementary activities is not efficient or effective. At present, issues or problems abroad are reported without full consultation with headquarters. Similarly, audits of headquarters function have noted problems without reference to the role of posts in the process. It follows that recommendations emanating from these reports do not always address the root cause of the problem. Consequently, the Department may not be getting full value for the resources allocated to the internal audit function.

14.212 **Professional capability.** The Service lacks the professional capability and methodology to carry out the operational/compliance audit and program evaluation tasks outlined in its mandate.

14.213 The Service is staffed on a rotational basis by program officers from foreign service organizations and on an as-required basis by auditors from the Department's Internal Audit Division. The former, who have little background or training in auditing or evaluation, are required to examine the programs of their own and other departments at the posts abroad. The internal auditors are involved primarily in examining such support services as finance and property administration.

14.214 The Service has not developed appropriate criteria or methodology to enable its inspectors to carry out their audit and evaluation responsibilities. An audit manual, prepared in 1980, is still in draft form; there was no evidence that it was being used in performing audits.

14.215 On joining the Service, the inspectors are not provided with any in-house or outside training to help them obtain an understanding of their new responsibilities. We were informed after completion of our examination that the Service has updated its draft manual and has introduced a training course for inspectors.

14.216 **Planning.** The Service has not prepared a long or short-term plan to meet its audit and evaluation mandate. The only planning done within the group is the preparation of a tour schedule which is based on the availability of resources and the breakdown of posts into geographical areas.

14.217 The Service does not prepare a model of the audit universe, rank its audit priorities or identify programs and the key systems and controls within them. The tour schedule does not define the scope and objective of each assignment but simply lists the dates, location and staff for the various tours.

14.218 **Performance standards.** The audits done by the Inspection Service do not meet the assignment performance standards of the Comptroller General.

14.219 The audits are not designed to assess the overall system for managing foreign programs and operations. Therefore, problems common to a number of posts or programs are not identified as such. Each post is treated by the Service as a separate entity. The nature and extent of the tests performed are not based on a study of the post's major activities and programs or evaluation of the system of internal control. Except for the work of the internal auditors, the Service's working paper files do not document the audit process; they contain little evidence to substantiate the findings contained in reports. The staff engaged on the assignments are inadequately supervised during the planning process and during the audit. To the extent that they exist, the working papers are considered to be the property of the individual involved in the assignment and are not subject to supervisory review.

14.220 **Audit committee.** The Interdepartmental Committee, which acts as the Service's audit committee, is not providing adequate support and guidance to the Service. The Committee has not met in over a year. As a result, the Committee has not reviewed the tour schedule and reports of the Service. The Service has had to attempt to clarify its own mandate and develop methodology and reporting approaches without the benefit of constructive criticism.

14.221 External Affairs should ensure that its internal audit function is organized and operated according to the standards of the Office of the Comptroller General.

> The Department agrees. With the active assistance of the OCG, work is proceeding with realigning this function to meet the OCG's standards.

14.222 External Affairs should, in conjunction with other foreign service departments, determine the role of the Inspection Service, and allocate the appropriate resources to it.

> In the wake of the government's reorganization of January 1982 and in keeping with the consolidation of foreign service activities, the Inspection Service has been integrated into the Department of External Affairs and merged with the Internal Audit Division. The new organization will have responsibility henceforth for the management, review and audit of all operations of the Department of External Affairs, at home and abroad, will be an integral part of the responsibilities of the Assistant Deputy Minister (Sector and Corporate Planning) and will report functionally to a reconstituted Audit and Evaluation Committee chaired by the Under-Secretary of State for External Affairs. Measures are being taken to ensure that the new unit has appropriate resources and is organized and operated according to the standards of the Comptroller General.

International Trade Development

14.223 The Trade Development program is headed by an Assistant Deputy Minister reporting to the Deputy Minister for International Trade and International Economic Relations. The Trade Development organization comprises six operational units: Defence Programs Branch; Bureau of European Affairs; International Marketing Policy Group; Bureau of Latin America and Caribbean Affairs; Bureau of Pacific, Asian, African and Middle Eastern Affairs; and the Bureau of USA Trade Development.

14.224 The program employs approximately 276 people at headquarters in Ottawa; another 222 Trade Commissioners and 167 locally-engaged staff are employed at 91 posts. For 1981-82, the program had a budget, including salaries, of approximately $40 million.

14.225 The objective of the Trade Development program is to "increase the total effective market for goods and services produced by the Canadian economy". This is achieved by a variety of methods, including offering financial assistance to Canadian businessmen to enable them to become familiar with foreign markets and to encourage them to participate in foreign trade fairs and missions abroad.

14.226 The program is delivered by Trade Commissioners at home and abroad who provide a wide variety of advice and assistance to government and business. One major type of advice is the identification of foreign market opportunities and deficiencies in the Canadian approach to these markets. Personnel at headquarters and at posts devote considerable time to assisting in marketing large projects.

14.227 In our audit, we reviewed planning, operational controls and effectiveness monitoring and reporting for the program. Three organizational units were investigated in depth: the International Marketing Policy Group; the Bureau of USA Trade Development; and the Bureau of Latin American and Caribbean Affairs. In addition, we examined the Promotional Projects Program across all four geographic bureaux. The activities selected are representative of the key activities of the bureaux. We chose the priority market plan as a case study of one type of marketing activity undertaken by the Trade Development program.

Planning

14.228 Planning for the Trade Development program is meant to facilitate the determination of what is to be done, how it will be accomplished and who is responsible. Although the mission of the total organization -- to expand trade --is clear, the objectives of all the organizational units relating to this mission are not always stated as precisely as possible. As a result, accountability for planning, controlling, implementing and measuring the activities that are undertaken is not always clearly defined.

14.229 We found that the processes for communicating operational plans from the posts to headquarters were satisfactory. However, there are problems linking activities to objectives and actual effects. Some program objectives are well developed; others are implicitly understood by officials rather than documented in project files. Informal means of obtaining information prevail and are used to guide daily work.

14.230 In a complex organization involving the interaction of participants who, in some cases, are thousands of miles apart, accountability through common understanding of required duties is fundamental to ensure co-ordination and co-operation. Within the Trade Development program, accountability for completing specific activities falling within single organizational units is well defined. For activities involving the interaction of several units at headquarters and posts, however, accountability is not well defined. Inadequate accountability is largely a result of a failure to identify clearly the roles, mandates and responsibilities of all organizational units in relation to each other.

14.231 **To provide guidance to line managers, facilitate evaluation and improve accountability of the Trade Development program, senior management should ensure that all organizational units have precise objectives, operational goals are consistent with strategic objectives, and organizational relationship are clearly defined.**

> The Department agrees. Points are well taken that officers have tended to depend on informal implicit objectives and accountability has not "always been clearly defined". Steps have been taken to rectify these shortcomings along lines discussed with the AG's representatives.

Project Selection and Operational Controls

14.232 Monitoring and control is not consistently applied throughout program activities.

14.233 The headquarters bureaux analyse post proposals for trade development projects to determine potential "pay off" and the relationship to objectives. However, projects are assessed as received, and approvals continue until all funds are spent. Thus, projects of equal or greater merit than those accepted may be rejected because of lack of funds. Without an appropriate priority-setting mechanism and consistently applied criteria, projects with equal merit may receive different consideration.

14.234 Ranking procedures for Promotional Projects are based on "intuitive perceived worth" associated with a specific rating. These ratings are obtained from organizational units at headquarters and at posts. Project priority is based on aggregate ratings and is approved by a senior management committee. There are, however, no uniformly applied ranking criteria between posts and headquarters. Consequently, assurance cannot be given that the final selection of projects reflects the highest priority of the Trade Development program.

14.235 Once approved, projects are pursued at posts and headquarters until it is obvious that no further export sales will result. Formal cut-off procedures or criteria do not exist.

14.236 Trade Development projects are monitored according to the specific circumstances of the organizational units and types of projects pursued. Project managers monitor short-term projects on an ongoing basis without any intermediate reporting points. At the time of our audit, project managers prepared reports for large projects on an irregular basis with no reference to formal project schedules. Since January 1982, the program has required that managers prepare quarterly situation reports for large projects. Progress monitoring for promotional projects also varies, depending on the organizational units. The net result is that monitoring procedures are inconsistent and adequate managerial control over the Trade Development Program cannot be assured.

14.237 The Trade Development program should establish operational control procedures for its program activities.

> The Department agrees. Promotional projects (trade fairs and missions) priorities are being more fully developed and followed than heretofore. The selection process for 1983-84 has been significantly improved and is under almost continuous review to bring it closer to the standard set in the AG's report. More formal cut-off criteria will be instituted to terminate projects when they cease to increase exports significantly.

Effectiveness

14.238 There are no procedures in place to assess, measure or monitor the effectiveness of the Trade Development program.

14.239 Although reports on the effectiveness of specific trade development projects are done, they are not formally required and, if they are submitted at all, they are frequently incomplete. No formal evaluations are conducted at the end of large projects. In promotional events, evaluations generally assess the physical make-up of the presentation and estimate potential sales and participants. Program managers know, however, that on-site and follow-up sales tend to be inflated.

14.240 The effects of promotional events or participation in large trade development projects are not aggregated and assessed in relation to a particular market strategy or to the strategic objectives of the Trade Development program. This situation is partly a result of the lack of clarity of objectives across a broad range of trade development work activities. Consequently, effectiveness monitoring of the Trade Development program is not always carried out where reasonable and appropriate.

14.241 The departmental Program Evaluation Group should establish procedures to assess the effectiveness of the activities of the Trade Development

program in relation to its objective of increasing Canadian export trade. The results of these evaluations should be reported.

> The Department agrees. This recommendation is valid. Evaluation of individual projects has been inconsistent and has not been fully aggregated. Its implication will contribute to a better assessment of the benefits of the program and strengthen its access to scarce human and material resources. The development of an enhanced evaluation program directed to the Trade Development Program will be undertaken in the reworking of the Department's evaluation function which was alluded to in responses to earlier recommendations.

Priority Market Plans: A Case Study

14.242 A specific approach to marketing pursued by the Trade Development program has been the priority market plan. In the document entitled A Canadian Export Strategy for the 1980s, the Canadian Government renewed its commitment to expand foreign trade. The program was given the responsibility to identify a list of priority market countries and to prepare a series of market plans. Plans have been completed for Mexico, Australia and Korea; 12 others are in process. The priority market countries are the main focus of Canadian trade initiatives for the immediate future.

14.243 The priority market plan is a major element of all international marketing efforts. There are no formally stated objectives, in terms of use and users, for the priority market plans. Specific industrial sector groups, which are largely responsible for expanding trade abroad, are not the main focus of attention. Instead, most of the priority market effort is directed toward other government organizations. The Department could not demonstrate that this activity would have a direct impact on expanding trade. This approach is typical of the Trade Development program's failure to establish organizational objectives linked directly to measurable effects on trade.

14.244 We found that procedures for assigning responsibility and identifying resources required to implement the priority market plans were unsatisfactory. Both interviews with key officers and documentation indicated ambiguity of duties associated with implementing, monitoring and controlling plans after completion. These deficiencies in implementation could seriously jeopardize the plans' chances of success.

14.245 In preparing the priority market plans, there are no procedures to ensure the validity, relevance, timeliness and completeness of the plans. Although there are informal controls over preparing the plans, these have not been uniformly developed, applied or documented. Because there are no documented methodological procedures, acquired knowledge is not maintained in a readily accessible format and cannot be used for future international marketing work. Given that appointments in the Trade Development program are rotational, this problem is even more pronounced.

14.246 The program is currently one and one-half years behind schedule in preparing the plans; existing plans are scheduled for update after three years. The program has not developed compensating mechanisms to inform the Canadian export community of altered trade conditions. In a rapidly changing international environment, the length of time required to complete the priority market plans casts doubt on the usefulness of the information they contain.

14.247 Priority market plans are currently distributed throughout the Canadian export community, but no attempt is made to monitor formally their effectiveness in increasing export trade.

14.248 Procedures for monitoring and collecting information on audience response are inadequately developed. The program does not make comparisons between the desired response of the audience and the actual response. Consequently, appropriate corrective action to improve the program's ability to provide information cannot be taken.

14.249 **Senior managers should review the priority market plan approach to trade development with a view to improving planning, implementation and accountability.**

> The Department agrees. Much of the criticism leading to this recommendation is valid especially the observation that lack of resources has delayed plan completion, and hindered their distribution and adaptation to the needs and responses of business clients. The approach and process will be reviewed.

Immigration

14.250 Canada, the United States and Australia are the three nations receiving most immigrants in the world today. Immigration to Canada is governed by the Immigration Act, 1976 and Regulations, 1978, which deal with both immigrants and visitors. Immigration program activities are carried out in Canada as well as abroad.

14.251 Under the terms of the legislation, Immigration involves three main activities: selecting and processing abroad of immigrants and visitors (including students and temporary workers); controlling non-Canadians who enter and establish themselves in Canada; and settling and integrating immigrants in the Canadian community.

14.252 This section of the chapter deals with the selection and processing abroad of immigrants, visitors, special students and temporary workers. The activities carried out in Canada under the Immigration Act are reported on in Chapter 7, the comprehensive audit report on the Canada Employment and Immigration Commission.

14.253 The policy objectives for immigration include recruiting family members (social objective), fulfilling Canada's international obligations to refugees and the persecuted (humanitarian objective), and developing a prosperous economy (economic objective). Canada received 128,600 immigrants in 1981 -- 51,000 under the family class, 15,000 under the refugee class and 62,600 as independent immigrants.

14.254 Before Consolidation of the Foreign Service on 1 April 1981, Immigration was the sole responsibility of CEIC. As a result of Consolidation, the Commission and the Department of External Affairs share responsibility for immigration. A summary plan of organization, set out in Exhibit 14.2, describes those organizations and their functions.

14.255 The environment in which External Affairs implements the Immigration program abroad is extremely varied. The profile of case load varies from posts such as New Delhi, which processes primarily family class immigration, to Rome, which processes mainly refugee class immigration, to Birmingham, which processes high numbers of selected workers. The pressure associated with posts also varies -- some posts experience lengthy line-ups, cope with high incidences of fraudulent documentation and respond to many information requests on specific cases. Other posts process all applicants easily, rarely having to cope with fraudulent documentation or needing to respond to representations.

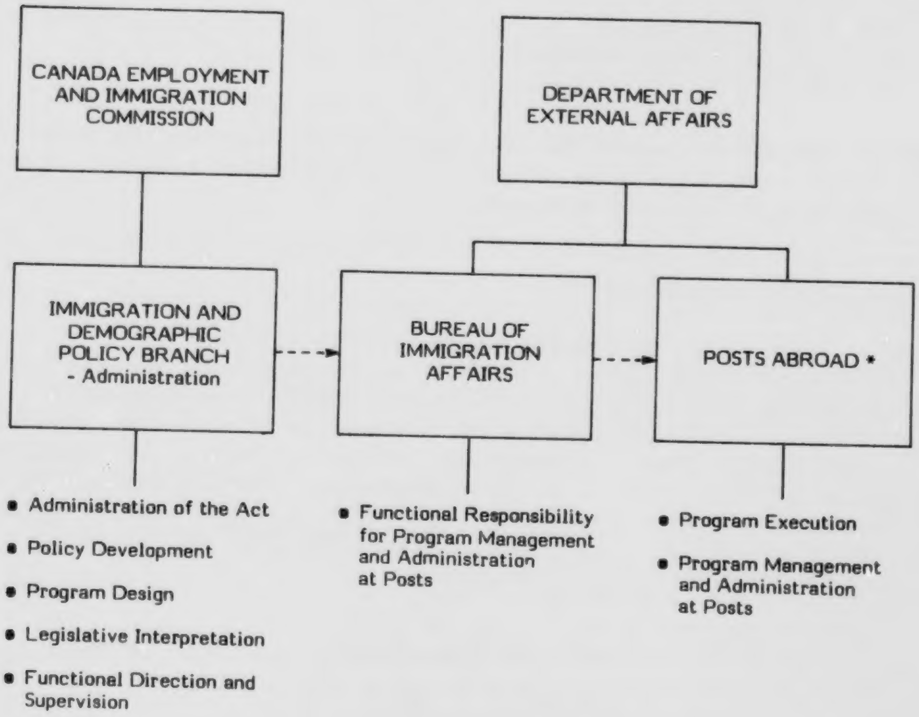
14.256 Selecting and processing immigrant applications includes four stages, each of which requires proper documentation: application screening; candidate's interview by an immigration program officer; health and security examinations; and visa issuance. The selection system emphasizes selecting immigrants who are likely to adapt to the Canadian way of life and make a positive contribution to the economic and cultural development of Canada. External Affairs applies selection standards (the point system) to applicants from all parts of the world. Apart from members of the family class and refugees, the Department:

- selects as immigrants those with skills in short supply in Canada;
- regulates the entry of workers for seasonal or other temporary jobs, ensuring that employment opportunities for residents of Canada are not adversely affected;
- admits foreign students who have been accepted at public or private institutions in Canada; and

Exhibit 14.2

FOREIGN OPERATIONS

IMMIGRATION PROGRAM - SUMMARY PLAN OF ORGANIZATION


CANADA EMPLOYMENT AND IMMIGRATION COMMISSION
DEPARTMENT OF EXTERNAL AFFAIRS
IMMIGRATION AND DEMOGRAPHIC POLICY BRANCH - Administration
BUREAU OF IMMIGRATION AFFAIRS
POSTS ABROAD *
• Administration of the Act
• Policy Development
• Program Design
• Legislative Interpretation
• Functional Direction and Supervision
• Functional Responsibility for Program Management and Administration at Posts
• Program Execution
• Program Management and Administration at Posts

* Immigration Program Manager has a line responsibility to the Head of Post

——— Line responsibility

- - - - - Functional responsibility

- monitors millions of visitors who come to Canada as tourists or for family, social, cultural or other visits.

14.257 The audit focused on the management processes to meet the annual levels of immigration and those of post immigration operations, including functional direction from headquarters. Although we did not directly address compliance with the Immigration Act and Regulations, we reviewed the adequacy of mechanisms in place within CEIC and External Affairs to ensure that the Act was implemented as intended by Parliament.

14.258 Our work concentrated on the headquarters unit that develops Immigration policy and programs and interprets Immigration legislation and on the posts that carry out Immigration programs abroad.

14.259 We did not review the immigration-related security functions of the Royal Canadian Mounted Police nor the immigration-related medical functions of the Department of National Health and Welfare.

Annual Levels of Immigration

14.260 **Immigration level establishment.** The Immigration Act, 1976, requires that the Minister of the Canada Employment and Immigration Commission present to Parliament annually the number of immigrants that the Government of Canada deems it appropriate to admit during any calendar year; this number is called the annual immigration level. Immigration levels for Canada are developed in consultation with the provinces and other appropriate groups and reflect regional, demographic and labour market needs. For 1981, the Government established an annual level of 130,000 to 140,000 immigrants; for 1982, the annual level was established at 130,000 to 135,000 immigrants.

14.261 In 1981, the Government established a three-year planning cycle and established annual immigration levels for 1982, 1983 and 1984. These levels are subject to annual reviews and adjustments when necessary. The annual levels are divided into three components of immigrants -- family members, refugees and selected workers.

14.262 In 1981, although CEIC came close to meeting the overall level, there was a shortfall of 18 per cent in the planned allocated intake of government-sponsored refugees.

14.263 **Reporting to Parliament.** Although the Annual Report of the Canada Employment and Immigration Commission and the Annual Report to Parliament on Immigration Levels include statistical data as well as the yearly refugee plan and immigration intake, neither of these reports provided a clear and complete picture for 1979 and 1980 on both actual intake and established levels.

14.264 To ensure complete accountability to Parliament for the Immigration Program, the Commission should clearly disclose and report in their Annual Report to Parliament on Immigration Levels the effect of any adjustments made during the year on the established annual immigration level and the actual immigration intake.

> The Canada Employment and Immigration Commission agrees with the need to ensure accountability and to provide a complete report of annual immigration intake in relation to planning levels. Details of planning figures and actual immigration are provided in successive Annual Reports to Parliament on Immigration Levels. The Commission will continue its efforts to improve the presentation of information to Parliament.

Management Processes

14.265 Annual immigration levels and their components flow from immigration objectives found in the Immigration Act and serve as elements of the Commission's strategic plans. The levels and their components are one means by which the Commission is held accountable by Parliament. Thus, adequate management processes to meet the levels are important in meeting immigration objectives and assuring accountability. There are four important aspects of these management processes:

- the targets model and system;
- the management information systems;
- resourcing to meet immigration levels; and
- responding to Canadian economic and employment needs.

14.266 The importance of adequate management practices has increased in light of the recent economic downturn and associated reduction in immigration which affect the immigration system.

14.267 **The targets model and system.** To translate annual immigration levels into operational plans for posts abroad, the Commission developed a system of monthly targets for processing immigration applications at each post.

14.268 In a public information document issued in March 1982, the Commission stated:

> The targets concept was considered as a way to develop gradually a workable system of managing and monitoring overseas immigration processing. This is a necessity given the requirement for meeting predetermined immigration levels each year.

This system was introduced in 1981, substantially revised for 1982 and is undergoing further review for 1983.

14.269 In our opinion, this concept of targets appears to be useful for planning and controlling activities to meet immigration levels and objectives; however, there are limitations and weaknesses in the present procedure and method of implementing this concept:

- targets are based on historical post output rather than the output required to meet the annual level and its components;
- targets provide no guidance on meeting the components of the levels, because post targets are not broken down by component;
- targets are provided in terms of applications processed at the post while immigration levels are expressed in terms of individual landings in Canada; thus, different units of analysis could lead to inaccuracies in predicting landings from targets;
- targets are not broken down by immigration and non-immigration (visitors, temporary workers and students) workload; thus, they provide limited guidance to the program managers on balancing post human resource utilization;
- certain assumptions in the target model related to productivity and backlogs do not reflect reality at some posts we audited; and
- the impact of non-immigrant workload within the target model is based on judgement rather than available hard data.

In light of these factors, some managers at posts do not believe that the targets are credible. Some posts do not readily know what their monthly targets are and are not monitoring their immigration processing activities to ensure that their targets are being met. Moreover, feedback on meeting targets sent from headquarters to the posts arrives much too late to be useful. As a result of the deficiencies in the targets model and the situation at certain posts, meeting the individual post targets will not necessarily result in meeting the overall immigration level or the components thereof.

14.270 Senior immigration program managers of the Commission informed us in September 1982 that they consider that post targets are established as a measure of post efficiency rather than as a management planning process to meet the annual immigration level and components of it as established by the

Government. The Commission maintains that the main management tools it uses to meet the annual levels are monitoring of the family class, intake controls such as the Occupational Demand Area Report (ODAR), variation in the points system, and refugee quotas. We are concerned about this position because of the problems, explained later in this chapter, related to ODAR and the information system which monitors immigration processing overseas. Furthermore, since Consolidation, the delivery of the immigration program abroad, and thus the efficiency at posts, is primarily the responsibility of the Department of External Affairs.

14.271 We consider that the accountability of program managers is related to meeting government levels or strategic plans that flow from immigration objectives found in the Immigration Act. Consequently, there is a need to link strategic and operational plans, or levels and targets. Levels and targets should not be considered as quotas or limitations in immigrant intake but rather as a means of planning and managing the immigration system.

14.272 **The Canada Employment and Immigration Commission and the Department of External Affairs should modify the system of monthly targets to reflect the established level and its components and to provide guidance to program managers at posts to make the most efficient use of human resources. Actual data should be used to replace assumptions and judgements where feasible.**

> The Canada Employment and Immigration Commission disagrees with the Auditor General's recommendation that post targets be used in an effectiveness context to raise and lower both overall and component immigration to Canada. The Commission supports its position on statistical grounds and on the fact that a system containing the elements identified by the Auditor General would amount to de facto discriminatory country quotas. Targets are used to achieve processing efficiency at posts and are based on actual data, provided at the finest level of resolution that can be statistically supported.

14.273 **Management information systems.** There are two key management information systems used by headquarters personnel to monitor the achievement of annual immigration levels and components. The first monitors the various stages in processing immigrant applications abroad, thereby providing information to management on the number, profile and status of cases in process. The second system, which is accurate and timely, reports the number of immigrants landed in Canada after receiving their visas abroad.

14.274 The information produced by the first system (monitoring of immigrant processing abroad) is not timely. Reports on immigrant processing abroad are often not available until three or four months after the activity has taken place at the post. This delay can be attributed to the length of time taken to send information to Canada from foreign countries and to data entry delays at headquarters.

14.275 Timely information on operations abroad is especially important, because management needs current and reliable data upon which to base decisions and assess trends in order to:

- monitor immigration processing abroad to ensure that the annual level and components are achieved;
- prepare the next year's report to Parliament on annual immigration levels; and
- refine the targets model and revise post targets for the following year.

Two recent situations demonstrate the effect of not having timely information. In April 1982, the Commission announced an immediate curtailment in processing a certain category of immigrants abroad. In addition to the Canadian economic and unemployment situation, one of the reasons for such abrupt action was that sufficient cases were in process at posts in April to meet one component of the 1982 annual immigration level without accepting any new cases. This action resulted in some posts having a sizeable portion of their work unexpectedly reduced. Had the information system on operations abroad been more timely, this situation could have been detected earlier and appropriate corrective action could have been taken sooner. Similarly, more timely data regarding refugee processing abroad would have warned CEIC earlier of the impending 18 per cent shortfall in the 1981 refugee component, thus allowing the Commission to make adjustments sooner than it did.

14.276 **The Canada Employment and Immigration Commission should ensure that its management information system for monitoring immigrant processing abroad is timely.**

> The Canada Employment and Immigration Commission agrees with the Auditor General that timely information is important and manages its information systems on a cost-effectiveness basis consistent with the need to manage overall and component levels of immigration to Canada and to monitor on-going programs.

14.277 **Resourcing to meet immigration levels.** A number of factors, some beyond the control of the Commission, have caused annual immigration levels to fluctuate significantly from one year to the next. These annual variations in levels pose a major challenge to ensuring that the program is responding economically and efficiently to changes in levels.

14.278 Since the immigration activities at the post are labour intensive, the main consideration in ensuring economic and efficient delivery of immigration services is the number of personnel involved and their productivity. Although immigration levels change from year to year, it is not possible to rapidly increase or decrease the complement of foreign service immigration officers accordingly. The three-year approach to planning immigration levels attempts to minimize the impact of these annual changes. External Affairs used the levels as a basis for resource determination for the three-year planning period and succeeded in getting the additional resources required for 1982. However, because the three-year planning approach is new and subject to periodic revision, it is not currently a reliable base for determining the optimal number of foreign service immigration officers.

14.279 There are a number of ways in which periods of high immigrant volume can be handled without permanently increasing the number of immigration foreign service officers. These alternatives include expanded use of practices now in use at some posts, such as increased delegation to locally engaged staff in tandem with expanded supervisory responsibilities for foreign service immigration officers, increased use of roving teams, single assignments and temporary transfers between various foreign service streams.

14.280 The Department of External Affairs should ensure that posts use the most economic and efficient means of coping with periodic variations in annual immigration volume.

> The Department agrees. The Department of External Affairs will continue to utilize all of the techniques mentioned in the Report, within the parameters of cost efficiency and resource availability.

14.281 **Responding to Canadian economic and employment needs.** The Immigration program must respond to economic and employment conditions in Canada. Forty-five per cent of all immigrants to Canada enter the labour force; many of these are selected on the basis of the extent to which their skills meet labour market needs. Accordingly, posts require current information on the occupational needs or demands of the Canadian economy. Immigration officers abroad could then adjust, guide and control the selection and processing of applicants in light of that information.

14.282 The main mechanism currently used to provide the posts with information on the occupational needs of the Canadian economy is the Occupational Demand Area Report (ODAR). ODAR does not reflect national occupational changes quickly. Also, it does not provide the posts with Canadian regional or local occupational demand information that the posts use as one selection criterion; the certified employment offers from Canada address local needs.

14.283 When ODAR recognizes the absence of domestic sources of labour supply, posts use this information in selecting immigrants. However, management information systems are not precise enough to monitor and regulate the resulting number of immigrants issued visas abroad, nor do they provide a timely indication that the need has been filled. Thus, there is the possibility that immigration could contribute to Canadian labour market surpluses.

14.284 To ensure that immigration is in tune with current economic and employment conditions and to guide and control the selection of immigrants abroad, the Canada Employment and Immigration Commission should develop systems that reflect Canadian national and regional occupational needs accurately and promptly.

> The Canada Employment and Immigration Commission has in place distinctly separate but complementary systems to identify national occupational needs in support of domestic labour market priorities and to address more immediate regional and local imbalances. In addition, the Commission is reviewing proposals aimed at strengthening direct matching, the principal tool for meeting local skill shortages, and fine tuning the flow of immigrants to occupations where national labour demand outstrips domestic supply.

Functional Direction and Supervision

14.285 With Consolidation, External Affairs assumed responsibility for delivering the Immigration program abroad, and CEIC retained responsibility for the functional direction and supervision of the program. The exercise of functional direction and supervision is intended to ensure the integrity of the Immigration program, consistency in its application throughout the world and adherence to the Immigration legislation.

14.286 **Functional direction.** To carry out its functional direction responsibilities, CEIC provides posts with a set of immigration guidelines. We noted difficulties in implementing some of these abroad, specifically with regard to the Foreign Household Domestics Program and procedures to allow entry of immigrants to Canada before security clearance has been completed. We found inadequate consultation between CEIC and External Affairs to ensure that the operational implications of guidelines are taken into account before they are disseminated.

14.287 With two departments jointly responsible for meeting the Immigration program objectives, it is essential that co-operation between CEIC and External Affairs be increased and sustained.

14.288 The Canada Employment and Immigration Commission and the Department of External Affairs should improve interdepartmental consultation in respect to developing and implementing immigration guidelines.

> The Canada Employment and Immigration Commission agrees with this proposal. The Canada Employment and Immigration Commission and

the Department of External Affairs are actively considering several systems for improving interdepartmental consultations in regard to the development and implementation of immigration guidelines.

14.289 **Functional supervision.** CEIC should be expected to rely on analyses of data coming from posts and audit and inspection services to carry out its functional supervision responsibilities.

14.290 The Immigration program abroad generates a large volume of data; however, CEIC does not regularly and consistently analyse certain key indicators to assure compliance with the Act, adherence to established methods and procedures and identification of trends related to immigration levels. For example:

- Posts are permitted to use discretion in qualifying independent class applicants. A recent analysis by External Affairs revealed that the use of discretion had increased by approximately 25 per cent between 1979 and 1981, representing 16 per cent of successful independent cases in 1981. Although this information is reported by the posts, it was not systematically reviewed by CEIC between 1979 and 1981.
- The use of Minister's permits, which can be used to allow otherwise inadmissable persons to Canada, is not regularly and systematically analysed.
- CEIC has not regularly analysed post standards for acceptance of immigrant applications to assure consistency among posts in considering applicants. Standards vary from post to post.

14.291 Discussion during Consolidation did not result in an agreement on the nature and extent of CEIC involvement in the audit and inspection of program delivery outside Canada. At the time of our audit, formal agreement still had not been reached. Furthermore, earlier sections of this chapter identified the serious limitations of existing Inspection Service reviews.

14.292 **The Department of External Affairs and the Canada Employment and Immigration Commission should reach agreement on the arrangements that will be put in place so that the Commission can exercise proper functional supervision over the Immigration program. Once in place, these management and other control mechanisms should be used to ensure adherence to established programs, methods and procedures.**

The Canada Employment and Immigration Commission agrees with this recommendation. The Canada Employment and Immigration Commission and the Department of External Affairs are reviewing

> proposals regarding mechanisms by which improved functional supervision can be realized and to ensure adherence to established programs, methods and procedures.

Visa Control

14.293 The immigrant visa is the most important document in the immigration process. CEIC has issued policies to the posts for preparing and controlling visas. However, the Commission does not monitor adherence to the policies. Some posts are not adequately controlling the use of visas or case serial numbers. Blank visas have substantial monetary value in illegal circles in some parts of the world; one lost blank visa form can be used to generate numerous illegal copies.

14.294 We also found that, as of May 1982, 13,000 visas, representing immigrants who had landed in Canada during the previous 18 months, did not match the source data of immigrants processed abroad. In July 1982, subsequent to our findings, the Commission analysed a random sample of 100 unmatched landing records and has been able to account for all of them. However, reconciliation of such important data has not been conducted regularly; the last reconciliation was in January 1981, and it was incomplete. Such analyses would provide a means of detecting potentially illegal immigration as well as ensuring that immigration data on file are accurate.

14.295 The Canada Employment and Immigration Commission and the Department of External Affairs should establish more effective control over visas at the posts, and regular monitoring and reconciliation procedures covering landed immigrants' records.

> The Canada Employment and Immigration Commission monitors adherence to its visa control policy by randomly and periodically requesting and reviewing copies of the posts' and Canada Immigration Centres' control logs covering specified periods.
>
> The two Departments concerned agree with this recommendation. The Canada Employment and Immigration Commission has instituted improved procedures regarding control over visa forms. It is also investigating a procedure that, subject to resource constraints, would determine through periodic sampling the validity of landed immigrant records which are unmatched to processing documents. The Department of External Affairs has sent instructions to all posts reminding them of the control requirements for key forms. The Inspection Service has been requested to review this aspect of post operations regularly.

Post Operations

14.296 Immigration operations differ substantially in both substance and volume from post to post. Although immigration management practices at posts are often informal and procedures undocumented, we found that they are appropriate for local conditions. We did note the absence of work standards or other measures of efficiency at the posts. The duration of processing activities between receipt of application and issuance of visa has doubled in the period 1979-1981.

14.297 External Affairs and the Canada Employment and Immigration Commission have recognized opportunities to improve the efficiency of processing activities abroad. A Post Processing Efficiency Task Force to streamline immigrant and visitor visa processing was established in November 1981, involving CEIC, External Affairs and the Treasury Board Secretariat. Some of the issues have already been studied by the Task Force, and recommendations have been drafted for Cabinet consideration. The study of other key issues is incomplete. External Affairs informs us that these latter issues will be reported upon by the autumn of 1982.

Cost Recovery

14.298 Immigration and visitor services abroad are provided without charge by the Canadian Government. Some of these services include processing immigration visas and visitor visas and permits. The Treasury Board Guide on Financial Administration states that the cost of services rendered at the option and specific request of identifiable individuals should be borne by them. A number of countries, including the United States and Australia, charge users for some or all of the immigration and visitor services they provide. External Affairs currently charges for a number of consular services provided abroad, such as administering oaths, attesting to execution of documents and authenticating signatures. It also charges Canadian citizens for passports.

14.299 If a rate similar to that charged by the United States had been applied to the 1981 family class and independent immigrants, approximately $11 million in revenue would have resulted.

14.300 **The Commission should study the feasibility and desirability of recovering costs of services provided.**

The Commission agrees with this recommendation.

Office of
The Under Secretary of State
for External Affairs

Cabinet du
Sous-Secrétaire d'Etat
aux Affaires extérieures

Canada

125 Sussex Drive
Ottawa K1A 0G2

September 28, 1982

Mr. Kenneth M. Dye
Auditor General of Canada
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Dear Mr. Dye:

I am writing to you in respect of the audit of the Department of External Affairs which you have just completed and which will be incorporated in your 1982 Report.

While our formal responses to the recommendations in your Report reflect the fact that we do not take issue with most if not all of your findings, I think it is incumbent upon me to provide some more general comments regarding this Department by way of providing a context within which your Report should be viewed.

The first point I might make is that I think it is generally accepted that, despite the shortcomings listed in your Report, the Department's foreign policy formulation and coordination role has been effectively discharged. In this respect I might refer to a comment which was made in another recent and in-depth study of the Department of External Affairs and the Foreign Service, the McDougall Royal Commission on Conditions of Foreign Service, wherein it was noted that: "...the foreign service has been managing international relations for years - and in the great majority of cases doing very well under sometimes difficult and extraordinary circumstances." I say that in the belief that it is important that in addressing the shortcomings we do not neglect or forget the positive aspects of the Department.

To a large extent, as was noted in the McDougall Royal Commission Report, a good many of this Department's difficulties stem from the fact that it previously lacked both the requisite structures and mandate to meet all of

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its various responsibilities and objectives - i.e., policy formulation, coordination, program delivery and the provision of an array of general services - in a manner which was consistent with the dictates of optimal management exigencies. Moreover, during the period covered in your audit the Department was required to discharge its various responsibilities in a particularly turbulent period in terms of a rapidly evolving public service management environment. In many respects the Department has faced in the past several years what might be termed an administrative revolution, particularly in the areas of personnel management, (an especially critical area for an organization such as External Affairs), and the policy and planning requirements flowing from the Policy and Expenditure Management System. While its response to these changes has not been universally effective, I think that in some areas it responded with imagination and skill given the magnitude and complexity of these changes.

In considering your report, I think it is important that the reader bear in mind that the Department of External Affairs which was the subject of your audit is not the organization which it is today. The government's reorganization in January 1982 together with other associated developments has had a profound and radical effect on the Department of External Affairs in terms of its mandate, operations and structures. These changes merit some brief consideration here given their significance for the Department and, more specifically, in respect of the problems identified in your audit report.

The Department's mandate has been revised and formalized in the proposed Department of External Affairs Act which is included in Bill C-123 which was tabled in the House of Commons by the Prime Minister on June 30 of this year. This marks the first significant legislative development in respect of the Department's authority within the last 70 years and will, if passed, endow the Department with a much welcomed clarity of purpose and authority. Similarly, the Department's authority has been much clarified and strengthened by the completion of the consolidation of the Foreign Service, through the transfer of the Trade Commissioner Service, and the incorporation of the trade policy and trade development functions of the Department of Industry, Trade and Commerce.

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An intended result of the government's reorganization has been a radical reconfiguration of the Department's management structure and organization. This process, particularly as it concerns the Department's organization at senior management levels, has been endorsed by Treasury Board Ministers. Although this process has not been completed many of the major steps involved have been taken. Foremost amongst these has been the establishment of three Assistant Deputy Minister positions, the incumbents of which will be reporting directly to me, which will bear a major burden of the changes to be made in the Department's management system and processes. One of these officers will have responsibility for all aspects of the personnel function, including the management of the foreign service, locally-engaged personnel abroad and the administration of the Foreign Service Directives. The second officer will bear responsibility for management and services (including financial/management, physical resources and telecommunications), and the majority of our program activities such as consular, immigration and public affairs. The third position at this level will oversee the planning, resource allocation, audit and evaluation functions of the Department. I consider that this new structure, which establishes an appropriate recognition of the Department's policy, program and management responsibilities, provides us with the required organizational framework with which to effectively manage this new Department.

Finally, as an integral part of the organization of the Department, there has been instituted a complete assessment and, where necessary, revision of management systems and procedures. In this regard the Department will have developed and, in some instances, implemented a complete management plan for the Department by the end of the current fiscal year. In doing so, we will be guided by, amongst other things, the recommendations you have set forth in your Report. In fact, I think that it is quite accurate to state that in some areas a good deal of progress has already been achieved.

As you will note from the foregoing comments we have to digest a great deal of change and have yet to fully develop to the logical conclusion of all the varied aspects of this new Department. I am confident, however, that this will be done and that it will be d[illegible] well and in a timely fashion.

Yours sincerely,

G.F. Osbaldeston
Under-Secretary

OTHER AUDIT OBSERVATIONS

OTHER AUDIT OBSERVATIONS

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OTHER AUDIT OBSERVATIONS

Introduction

15.1 This chapter reports on four types of matters:

- observations under section 7 of the Auditor General Act on matters raised for the first time that are not included elsewhere in this Report;
- observations under section 7 of the Auditor General Act on matters raised in previous annual Reports;
- a report under section 11 of the Auditor General Act on our continuing review of the Oil Import Compensation Program; and
- observations on the financial statements of departmental accounts.

Observations Under Section 7 on Matters Raised for the First Time

15.2 **Department of Energy, Mines and Resources - Acquisition of Petrofina Canada.** In 1980, the Government announced "The National Energy Program" in which it stated that "the Government of Canada intends to acquire several of the large oil and gas firms." Further, the Government established:

> a Canadian Ownership Account, to be financed by special charges on all oil and gas consumption in Canada, to be used solely to finance an increase of public ownership in the energy sector.

On 23 April 1981, the Government presented a Ways and Means motion to amend the Petroleum Administration Act with the purpose of providing for "the imposition of Canadian ownership special charges and taxes to finance an increase in the Canadian public ownership of the oil and gas industry in Canada ...."

Vote 5C of the Supplementary Estimates, (C) 1980-81, provides the authority for "the share purchase of and property acquisition from Petrofina Canada Inc., by Petro-Canada, (not to exceed 1.7 billion dollars which includes the interim financing costs)."

In an agreement effective 31 December 1981 between the Government of Canada and Petro-Canada, Petro-Canada agreed to provide the Minister of Energy, Mines and Resources with "Acknowledgements of Indebtedness" for the moneys remitted to Petro-Canada from the Canadian Ownership Account. The agreement further states that Petro-Canada will issue common shares, each having a par value of $100,000, on 31 March of each year to extinguish the indebtedness of Petro-Canada to the Minister.

Canadian Ownership Account Transactions. We audited transactions in the Canadian Ownership Account (COA), which forms part of the Public Accounts of Canada. The following table summarizes the financial transactions in the COA for the period 1 July 1981 to 31 March 1982:

Receipts	
Petroleum and Petroleum Products	$ 567.7 million
Gas and Gas Liquids	218.7
	786.4
Payments	
To Petro-Canada regarding Petrofina Canada Inc. acquisition	710.9
	$ 75.5 million

Weakness in Managing Public Funds. We would have expected that the parties processing and authorizing such an expenditure would have available an evaluation of the entity to be purchased, including:

- its value in relation to price;
- alternate strategies considered in acquiring the entity;
- the implications of such a purchase to the effective purchaser (the Government of Canada); and
- the means of financing the purchase.

Also, one would expect a formal plan for, or a report on, a post-evaluation of the assets acquired to ascertain that value for money was received.

To fulfil our responsibility as auditor of the accounts of Canada, we requested from the Department of Energy, Mines and Resources and responsible central agencies documentation demonstrating that due regard was given to economy in the acquisition process and that reasonable value was in fact received for money expended. As well, we sought explanations of the events leading up to the loan transactions, including an examination of the role of the Department of Energy, Mines and Resources, Petro-Canada and others.

Senior management in the Department of Energy, Mines and Resources informed us that, because Petro-Canada was the vehicle used to identify, evaluate, negotiate and recommend the acquisition of Petrofina Canada Inc., the Department was not responsible to ensure that value for money was or had been achieved. It had not carried out any such analysis and had no documentation available for audit. In their view, Petro-Canada had made the acquisition and was thus responsible for doing any necessary analysis and evaluation. Departmental management viewed any review by the Department as inappropriate second-guessing of a Crown corporation decision. The role of departmental managers consisted only of providing advice to the Minister on the consistency of the proposal with the Canadianization policy. They explained that this was due to the fact that the agent for this transaction was Petro-Canada and, in keeping with their view of the arm's length nature of relations between departments and Crown corporations, departmental management was not asked to advise on the substance of Petro-Canada's analysis.

Although Petro-Canada's available expertise would be valuable in an analysis of this kind of acquisition, exclusive reliance on the corporation could effectively remove any overall accountability for such expenditures of public funds.

Although certain documentation has been provided to us by the Department, we have not received supporting evidence relating to the advice given to ministers on such considerations as the value of the assets acquired in relation to price or alternative acquisition and financing mechanisms.

In the absence of such information, we are unable to ascertain that due regard to economy has been demonstrated or achieved in respect of a transaction that has advanced $711 million out of an eventual $1.7 billion to a Crown corporation.

It is our view that there is a serious weakness in the management of public funds when departmental and central agency officials have had no responsibility to ensure that due regard to economy is demonstrated and value for money is achieved, in respect of a transaction that has advanced $711 million out of an eventual $1.7 billion to a Crown corporation. The relationship of Crown-owned corporations and departments of government in terms of management accountability and control is discussed in Chapter 2 of this Report. During our comprehensive audit of the Energy Sector of EMR in 1982-83, we will continue our investigation into this matter.

15.3 Department of Energy, Mines and Resources - Inadequate management controls over payments totalling $285.3 million under four major energy programs. The Department of Energy, Mines and Resources (EMR) is responsible for four major energy programs under which payments totalling $285.3 million have been made during 1981-82. In three of the programs, claimants are paid by an agent appointed by EMR. In the remaining program, claimants are paid by EMR based on information supplied by a number of other agents. In our view, EMR did not exercise adequate financial and operational controls over its agents who are involved in the delivery of these energy programs to provide assurance that the provisions of agency agreements were complied with and the objectives of the programs were met.

The four energy programs are the Home Insulation Program (HIP), the Canadian Home Insulation Program (CHIP), the Gas and Electric Conversion

Assistance Program (GELCAP), and The Renewable Energy Conversion Assistance Program (RENCAP).

CHIP and HIP commenced in 1977 as programs administered by Canada Mortgage and Housing Corporation (CMHC). The two programs are now included in EMR Votes 35 and 40 respectively. As of 1 April 1981, EMR assumed responsibility for these programs. CMHC, under the terms of an agreement between EMR and CMHC dated 28 July 1981, continues the delivery aspects of these programs.

RENCAP was announced in October 1980 for commencement 1 April 1981. The delivery of this program is also administered by CMHC under an agreement with EMR.

GELCAP started 1 April 1981 and is included in EMR Vote 45.

Under HIP, CHIP and RENCAP, individuals apply for contributions to the Canada Mortgage and Housing Corporation (CMHC). Periodically, EMR advances funds, based on estimated claims to be paid, to CMHC which, in turn, pays claimants. Under GELCAP, individuals apply for contributions to utility companies which review and approve applications received. Approved applications are sent to a computer company which produces and forwards to EMR a computer tape containing information that the Department uses in paying claimants.

To satisfy itself that the provisions of the agency agreements are being complied with and the objectives of the programs are being met, EMR has the right to audit records maintained by its agents. For HIP, CHIP and RENCAP, we noted that EMR had not conducted any audits in respect of funds advanced to CMHC totalling $173.3 million.

For GELCAP, EMR also has the right of audit, and we noted that EMR had conducted audits of only two small utility companies that accounted for approximately 12 per cent of the $112 million payments made under the Program. We also noted that EMR could not audit Quebec Hydro, a large utility company accounting for $35 million of GELCAP payments, because, as yet, the agency agreement had not been signed.

In the management of such programs, we found that EMR's information requirements of its agents could be improved. Information that we would have expected EMR to obtain from its agents to assist in the management of these agreements and these related programs would have included:

- inspection documentation to adequately support claimant contribution expenditures;
- reports on the incidence of and the follow-up action taken pertaining to problems identified from inspections and contribution processing;

- from CMHC, reports on the status of refunds due EMR in respect of claims paid in error or improper claims; and
- from CMHC, reports accounting for the use of funds advanced by EMR to finance payment of claims.

We also noted that, at 31 March 1982, EMR had advanced approximately $17.5 million to CMHC in excess of the funds required by CMHC for payment of claims received. This amount was returned to the Department by CMHC subsequent to 31 March.

We recommend that EMR take immediate action to improve its management and information processes.

We have been informed by EMR that arrangements are now being made to improve the Department's management of the agreements pertaining to these programs.

15.4 Department of External Affairs (CIDA) - Inadequate financial controls over advances to contractors and suppliers. Although advances made to contractors and suppliers by the Canadian International Development Agency (CIDA) are substantial, ($68.4 million outstanding at 31 March 1982) financial controls exercised by the Agency are, in our view, inadequate.

According to Treasury Board rules and regulations, accountable advances may be authorized only if disbursements are urgently required and normal payment facilities are either not practical or not immediately available. Advance payments may also be made before work is performed if specifically authorized under the terms of a contract.

The Government rules and regulations concerning accountable advances and advance payments have been developed with a view to encouraging sound financial management practices. They require that advances be neither excessive nor used for long-term financing. They also require that an advance should be provided only on the basis of documented cash flow requirements and for a period not exceeding three months. They further require that advances should not be made close to the end of a fiscal year if related expenditures are not likely to be incurred until the following fiscal year. Finally, for CIDA, Treasury Board approval is required for all accountable advances exceeding $250,000, although no such specific prior approval is needed for advance payments made under the terms of a contract.

The following are examples of weaknesses in financial control identified during our audit:

- Late in 1981-82, nine accountable advances totalling $8 million were paid and charged to expenditure in that fiscal year. The supporting documents we examined indicated that these advances were not immediately required, and thus should not have been paid and charged to expenditure until the 1982-83 fiscal year. As a result, funds which would otherwise have lapsed in 1981-82 were made available to the project in that year.

- We noted four cases where advance payments, totalling $23.5 million, provided long-term financing under the terms of related contracts, contrary to Treasury Board rules and regulations. For example, in one three-year contract, an amount of $4.5 million, representing 50 per cent of the value of the contract, was advanced in 1980 and is being accounted for by the recipient over the life of the contract. In a five-year contract, an amount of $12.5 million was advanced and is also being accounted for by the recipient over the life of the contract.
- At 31 March 1982, an amount of $9.6 million remained outstanding in respect of advances made during the period March 1978 to August 1980. Although these advances have been outstanding for much longer than three months, documentation relating to their use by the recipients was not available within CIDA, indicating a lack of adequate monitoring by the Agency. Similarly, in two cases, accountable advances totalling $1.6 million had been provided without supporting cash flow statements or appropriate expenditure statements accounting for previous advances.
- In two other cases, although Treasury Board authority for advances exceeding $250,000 had been obtained, the revised authority limits had been exceeded in the aggregate by $1.2 million.

We are also concerned that, in a number of the instances noted above, the Agency had conferred economic benefits on contractors and suppliers without giving adequate consideration to the cost of financing the funds advanced in this fashion.

15.5 Department of External Affairs (CIDA) - Inadequate management and financial controls relating to a development project in Haiti. In 1973, the Canadian International Development Agency (CIDA) initiated an integrated rural development project in Haiti. This project, known as DRIPP (Développement Régional Intégré de Petit-Goâve à Petit-Trou-de-Nippes), encompassed several small scale projects in various economic and social sectors such as agriculture, health services and education. The project was jointly managed by CIDA and the recipient country and had an approved funding of $29 million. Although the need to improve project control had been identified in 1975, it was in August 1981 that CIDA restructured the project and introduced major elements of managerial control. In November 1981, after spending approximately $22 million, this project was terminated because of the continuing inability of the Government of Haiti and the Government of Canada to arrive at a mutually satisfactory understanding regarding management and control arrangements acceptable to the Canadian Government.

A post-termination audit, conducted in 1982 by the Audit Services Bureau (ASB) of the Department of Supply and Services at the request of CIDA, revealed significant project management weaknesses in the DRIPP project. The audit also revealed that financial control procedures over approximately $14 million of disbursements for local costs had broken down. The responsibility for maintaining financial control over these disbursements was shared between officials of CIDA and the Canadian Department of External Affairs in the recipient country.

In a detailed examination of all transactions covering approximately $2.9 million of disbursements for local costs during the period February 1981 to January 1982, ASB auditors identified fraudulent payments of US $110,664 and suspect that additional payments amounting to US $127,513 may also be fraudulent. The Agency has reported fraudulent payments of US $110,664 (Canadian $136,150) in the Public Accounts of Canada as required by section 98(3) of the Financial Administration Act.

The audit examination was extended to cover transactions prior to February 1981 and revealed that, for $1.7 million of the total local costs disbursed of $11.1 million in this period, the majority lacked proper authorizations and supporting documentation. However, because of a number of constraints, such as documents held by the recipient country not being available to ASB auditors and lack of accessibility to project staff and sites, the overall magnitude of fraud over the life of the program could not be fully established.

15.6 Department of Public Works - Failure to recover expenditures from the Canada Post Corporation. On 16 October 1981, the Canada Post Corporation (CPC) began operations and took over administration and control of certain government-owned properties from the Department of Public Works (DPW). In the period 16 October 1981 to 31 March 1982, DPW incurred operating and maintenance expenditures of $61,319,000 in respect of these and other properties occupied by CPC. However, DPW did not recover these expenditures from CPC. We noted that DPW commenced recovery from CPC of expenditures incurred subsequent to 31 March 1982.

15.7 Department of Public Works - Failure to control vote netting as directed by Treasury Board. Treasury Board policy requires that when Parliament grants authority to expend revenues received (vote netting), the amount of such revenues that may be expended shall not exceed 125 per cent of that forecast in the Estimates without specific Treasury Board approval.

For Department of Public Works (DPW) Vote 10, Accommodation - Operating Expenditures, Treasury Board further directed that the authority to expend revenues received without prior approval be limited to that forecast in the Estimates plus the lesser of 25 per cent thereof and $5 million.

During the year, DPW received and expended revenues of $108,618,025 in respect of Vote 10. Although this amount exceeded the forecast in the 1981-82

Main Estimates plus $5 million by $1,191,025, DPW did not obtain Treasury Board approval as required.

15.8 Department of Regional Economic Expansion - Joint venture in provincial revolving fund sets dangerous precedent. Beginning in 1982, certain amounts due to Canada under an industrial development agreement with a province will be deposited in and disbursed directly from a provincial revolving fund. This sets a dangerous precedent by permitting federal funds to be spent without parliamentary scrutiny.

In 1977, an Industrial Development Subsidiary Agreement (IDSA) was signed between the Department of Regional Economic Expansion (DREE) and the Province of British Columbia (B.C.). Under IDSA, British Columbia advanced loans, mainly to municipalities, at low interest rates for industrial land development. The loans were jointly funded by Canada and the province. Normal repayment periods were up to 20 years, with earlier repayment in full when 90 per cent of the saleable land in an industrial park had been sold. At 31 March 1982, Canada had funded one-half, or about $26 million, of the total loans outstanding and, under the Agreement, stood to receive back about $13 million, most of which is interest.

From the early years of IDSA, representations were made by the province for creation of a Revolving Fund. These representations were accepted by Canada at the end of IDSA, when it was agreed, and approved by Order in Council, that Canada become a joint venturer in a B.C. Revolving Fund. This Fund is to receive all loan repayments under IDSA for a 10-year period beginning in 1982, during which time the Fund will reinvest loan repayments in new loans. Under the joint venture, amounts will not be paid back to the Consolidated Revenue Fund until 1992 or later. In the meantime, further loans made from the B.C. Revolving Fund will not be subject to the normal appropriation process and thus to approval by Parliament.

In our opinion, Canada's participation in this Revolving Fund creates a dangerous precedent, as it removes funds from the Consolidated Revenue Fund and allows them to be loaned out again without parliamentary scrutiny.

15.9 Department of Regional Economic Expansion - Irregular $2.7 million incentive payment preceding closure of a company. In an industrial incentives case, DREE did not carry out an adequate analysis of the financial condition of an applicant immediately prior to making payment. As a result, DREE made a payment of $2.7 million jointly to the applicant and its banker, even though the applicant was in default on financial commitments to the bank. A few days after payment was made, the Bank seized the applicant's assets, which resulted in closure of the company and loss of DREE's payment.

15.10 Department of Regional Economic Expansion - Poor cash management. We noted two instances where the Department of Regional Economic Expansion (DREE) had disbursed funds before demonstrated need, indicating poor cash management and a lack of due regard for the cost of money. In 1981 and 1982, the Cape Breton Development Corporation (Devco) requested and was paid amounts totalling $57 million more than the company expended in those years for acquisition of capital assets. Also in 1982, DREE paid the Province of Ontario $4.9 million more than needed for that year under a shared-cost program.

Devco is a Crown corporation reporting to Parliament through the Minister of Regional Economic Expansion and is funded by appropriations from Canada for coal mining losses, industrial development costs and capital expenditures. In 1981-82, total funding by Canada was $133 million ($98 million in 1980-81). In respect of Devco's coal division capital expenditures, Canada appropriated, and DREE paid, $60.4 million in 1980-81 and $98.5 million in 1981-82, although the corporation recorded capital expenditures of only $29.5 million and $72 million respectively in those years. As a result, for the two years, Devco received $158.9 million and made capital expenditures of $101.5 million, a net payment by Canada of $57 million before demonstrated need.

There is confusion concerning who is responsible for controlling Devco's appropriations. DREE carries out the restricted role of disbursing funds from the appropriation voted by Parliament but otherwise has no role in monitoring how the funds are spent. Cash payments to Devco from appropriated funds are made at the request of the Corporation, with no matching of payments against demonstrated need, either by the Department or other agency of Canada.

Under a 50-50 shared-cost agreement with Ontario, DREE had paid $10.2 million as of 31 March 1982, although the federal share should only have been $5.3 million. The excess payment of $4.9 million, which would otherwise have lapsed, is intended to be offset against the federal share in the next fiscal year, however, we have not seen a formal agreement specifying this.

We recommend expansion of the Department's role regarding Devco and improvements to the Department's financial controls to ensure that payments are not made from a particular year's appropriation in advance of the recipients' needs.

The Department advises that its role regarding Devco will be reviewed in the overall context of the current merger of DREE with the Department of Industry, Trade and Commerce and in conjunction with government-wide policy respecting Crown corporations.

15.11 Department of Regional Economic Expansion - Additional plant capacity funded without demonstrated need. An application was received from a company for a financial incentive to rebuild a facility that had been destroyed by fire. During the interim period, it had carried on business using surplus capacity in similar local businesses. Agriculture Canada supported the reconstruction of this facility, even though it expressed concern about the ability of the industry in that region to expand in the future. In spite of this reservation and the demonstrated excess local capacity, DREE arranged to pay an incentive of $875,000 to rebuild the destroyed facility, with an increase of 20 per cent over the original productive capacity.

15.12 **Department of Regional Economic Expansion - Risk of major loss on loan guarantees and possible lack of value for money in assistance payments.** Canada, through the Cape Breton Development Corporation, has guaranteed repayment by the Sydney Steel Corporation (SYSCO), a Nova Scotia Crown corporation, of $70 million of 11 1/4 per cent Series D debentures plus interest. At 31 March 1982, the SYSCO debentures still outstanding amounted to $57,260,000.

In 1981, a new business plan was prepared for SYSCO, based on a series of consultant's reports funded by Canada and Nova Scotia. On the basis of the plan, a $96 million cost-sharing agreement was approved for partial plant modernization, with Canada agreeing to bear 80 per cent of the cost (approximately $77 million) and Nova Scotia the other 20 per cent. Full modernization of SYSCO's plant would require an even more substantial capital investment.

Since its creation in 1967, SYSCO has been increasingly troubled by mounting losses and layoffs. An empty order book forced a plant shut down in 1982. An advance order from CN for 88,000 tons of rails allowed the plant to reopen in September 1982. Canada's contingent liability in respect of the guarantee of SYSCO debt could become an actual liability if SYSCO were forced to default on the debt.

Use of Appropriations Granted by Parliament

15.13 For the year ended 31 March 1982, 9 of 31 government departments reported overexpended appropriations. The total amount reported as overexpended was approximately $113 million and is presented in the Government's 1982 Statement of Use of Appropriations which forms part of the Audited Financial Statements of the Government of Canada, reproduced in Appendix D of this Report. Details by department, as provided in Volume II of the 1982 Public Accounts of Canada, are shown in Exhibit 15.1

15.14 In paragraph 15.8 of our 1981 Report, we called attention to the need to amend the Financial Administration Act (FAA) to clarify the legal authority for the Government's Payables at Year End (PAYE) policy. We understand that proposals for an appropriate amendment to the FAA will be presented to Parliament in the near future.

15.15 During our annual audit of government departments and agencies for the year ended 31 March 1982, we identified a number of matters that caused us concern with respect to the use and reporting of appropriation authority granted by Parliament. These matters are set out, by department or agency, in paragraphs 15.16 through 15.21.

15.16 In 1981-82, the Department of the Environment transferred $370,000 of salary costs in its Administration appropriation (Vote 1) to its Environment Services appropriation (Vote 5). As a result, the Department appears to have

Exhibit 15.1

	Appropriations		
Department and Vote	Granted	Used	Overexpended
Energy, Mines and Resources			
Statutory - Home Insulation	$ 3,225,000	$ 4,851,064	$ 1,626,064
External Affairs (CIDA)			
Vote L 40 - Loans to developing countries and international development institutions	295,850,858	295,872,080	21,222
Indian Affairs and Northern Development			
Vote 5 - Program expenditures	320,215,695	320,451,681	235,986
Industry, Trade and Commerce			
Vote 10 - Grants and Contributions	395,371,692	410,007,086	14,635,394
National Defence			
Vote 1 - Operating expenditures	4,105,325,298	4,130,677,853	25,352,555
Vote 5 - Capital expenditures	1,174,475,317	1,197,935,385	23,460,068
	5,279,800,615	5,328,613,238	48,812,623
National Health and Welfare			
Vote 35 - Operating expenditures	1,640,000	1,675,993	35,993
Public Works			
Vote 10 - Operating expenditures	457,838,101	463,020,287	5,182,186
Vote 15 - Capital expenditures	144,965,847	153,183,553	8,217,706
Vote 20 - Operating expenditures	39,481,000	39,638,646	157,646
	642,284,948	655,842,486	13,557,538
Solicitor General			
Vote 15 - Program expenditures	10,230,523	10,327,071	96,548
Transport			
Vote 35 - Payment to Nanaimo Harbour Commission	5,500,000	5,513,932	13,932
Vote 85 - Payment to VIA Rail	506,221,135	540,617,652	34,396,517
	511,721,135	546,131,584	34,410,449
Total overexpended			$ 113,431,817

avoided reporting an overexpenditure of $275,000 in its Administration appropriation, thereby avoiding parliamentary scrutiny.

15.17 Vote L20b, 1975-76, authorizes the Department of National Defence (DND) to make recoverable advances and short-term loans for specified purposes providing the aggregate amount outstanding at any time does not exceed $26 million. During our 1981 and 1982 audits of DND, we noted that the Department exceeded this aggregate limit and charged advances in excess of it direct to Vote 1, Operating Expenditures. When all such advances are considered together, regardless of where charged, the limit imposed by Parliament in Vote L20b has been exceeded as follows:

	(millions of dollars) limit exceeded by	
Date	1982	1981
31 July	-	6.0
31 August	15.3	10.5
30 September	10.9	32.1
31 October	8.0	15.0
30 November	4.7	-
31 December	3.0	-
31 January	3.3	-
28 February	3.1	-

We understand that DND has prepared a submission to Treasury Board requesting approval of an increased aggregate limit.

15.18 Department of Public Works Vote 45, Land Management and Development - Capital Expenditures, does not permit capital expenditures, including contributions, in respect of construction carried out on land that is not owned by the federal government. During our audit, we noted that expenditures charged to Vote 45 included $16.5 million for the Ottawa Rideau Centre Project and contributions of $4.5 million paid to the City of Saint John, New Brunswick, for the construction of a sea-wall. In both cases, the provisions of Vote 45 were violated because the expenditure was for construction on land that the federal government does not own. The Department advises that the expenditures were charged with the concurrence of Treasury Board, on the understanding that Vote 45 wording would be amended by an Appropriation Act prior to 31 March 1982. The anticipated amendment was not made.

15.19 The National Native Alcohol and Drug Abuse Program of the Department of Indian Affairs and Northern Development (DIAND) is directed at the prevention and treatment of alcohol and drug abuse among Indians and Inuit. Under the Program, contributions are provided to projects which are designed and operated by native people. DIAND and the Department of National Health and

Welfare (NH&W) have shared equally the cost of this Program. For 1981-82, Treasury Board allocated funds for the Program to DIAND appropriations as follows:

Vote 5 - Operating expenditure	$ 638,000
Vote 15 - Contributions	3,475,000
	$ 4,113,000

Our audit of DIAND for 1981-82 revealed that the Department paid $3.9 million to NH&W as its share of the Program's expenditures. However, the entire expenditure was charged to Vote 5 - Operating Expenditure whereas contributions of $3,450,600 should have been charged to Vote 15 - Grants and Contributions. Had the contributions been charged to Vote 15 as required, this vote would have been reported as overexpended by $2,216,245. Also, Vote 5, which is now reported as overexpended by $235,986, would have lapsed $3,214,614.

15.20 In the 1982 Public Accounts of Canada, Canadian Radio-television and Telecommunications Commission (CRTC) Vote 55, Program Expenditures, is reported as having lapsed in the amount of $58,976. However, our audit of CRTC disclosed that a liability of $408,000 at 31 March 1982 had not been recorded and charged to Vote 55 as required by the Governments' stated accounting policies. Had this liability been recorded, Vote 55 would have been reported as overexpended by $349,024.

15.21 In the 1982 Public Accounts of Canada, External Affairs Vote L40 is reported as overexpended in the amount of $21,222. However, our audit of the Canadian International Development Agency (CIDA) disclosed that liabilities of $1,290,637 at 31 March 1982 had not been recorded and charged to Vote L40 as required by the Government's stated accounting policies. Had these liabilities been recorded, Vote L40 would have been reported as overexpended by $1,311,859.

Observations Under Section 7 on Matters Raised in Previous Reports

15.22 **Acquisition of Radio Engineering Products Limited as Satisfaction for Debts to the Crown.** Our 1972 Report (paragraph 101) described the circumstances which led to the acquisition of Radio Engineering Products Limited in 1972 as satisfaction for debts of $4.3 million due to the Crown. The Standing Committee on Public Accounts has asked us to report each year on the results of this transaction.

In our 1978 Report (paragraph 22.15), we summarized events which led the company to file a voluntary declaration of bankruptcy in 1975. In our 1980 Report (paragraph 12.4), we noted that $503,000 was on deposit with the Trustee in Bankruptcy at 31 March 1980. In our 1981 Report (paragraph 15.3), we stated that the Trustee had informed us that he had $564,954 on deposit at 31 March 1981. In addition, we reported that the distribution of trust moneys to the Crown had been delayed, pending the outcome of litigation involving a claim by the company against two of its senior officers and a counter claim by the senior officers. The initial court hearing for this litigation was set for 15 February 1982.

The company's claim against two of its senior officers was settled out of court for $200,000 on 7 January 1982.

According to the Trustee's statement of receipts and disbursements, dated 24 February 1982, the total amount available for distribution to the creditors of the company was $883,644.50. The Crown's share of these proceeds was to be distributed as follows:

Secured Creditor:	- Receiver General - UIC	$ 747.04
Preferred Creditors:	- Supply and Services	$ 54,465.51
	- National Revenue	$ 475,961.34
	- Industry, Trade and Commerce	$ 133,230.83
		$ 664,404.72

These amounts plus interest to date of payment have been received by the Crown.

15.23 **Audit of Indian Band trust accounts.** The Standing Committee on Public Accounts (PAC), in its Sixth Report to Parliament, 23 June 1981, recommended that the Auditor General of Canada undertake an audit of one or more individual Indian Band trust accounts. It also recommended that the Auditor General and the Department of Indian Affairs and Northern Development (DIAND) consult with representatives of the Indian Bands selected for audit to agree on the scope of the examination to be conducted. Trust accounts for all Bands are summarized and reported under the heading "Indian band funds" in Table 8.12 on page 8.10 of Volume 1 of the 1982 Public Accounts of Canada. Separate financial statements for each Band's trust accounts are not included in the Public Accounts.

In response to the PAC's recommendation, the Auditor General, in consultation with DIAND, selected 2 Indian Bands from among the 75 requesting audit. Selected for audit were the Sakimay Band of Saskatchewan, which is representative of smaller Bands whose incomes are derived basically from agricultural leases, cottage rentals and interest income, and the Saddle Lake Band of Alberta, which is representative of those Bands receiving oil and gas royalties and interest incomes. Before beginning our examination, we met with representatives of DIAND and the two Band Councils as recommended.

We examined the transactions reported in the capital and revenue trust accounts of the two Bands for the period 1 April 1976 to 31 March 1981 to determine whether they were presented fairly in accordance with the Indian Act, Regulations and Band Council Resolutions. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, transactions reported in the capital and revenue trust accounts of the Sakimay and Saddle Lake Bands are presented fairly in accordance with the Indian Act, Regulations and Band Council Resolutions for the period 1 April 1976 to 31 March 1981.

Report Under Section 11 on Our Continuing Review of the Oil Import Compensation Program

15.24 In 1974, at the request of the Governor in Council, we undertook a continuing inquiry under section 62 of the Financial Administration Act into the administration of expenditures of the Oil Import Compensation Program. When the Petroleum Compensation Revolving Fund was set up in 1978, we included it in our inquiry because expenditures from the Fund are made under the same legislative authority that applies to the Oil Import Compensation Program. We audit the revenues of the Fund in accordance with our responsibilities under the Auditor General Act.

Oil Import Compensation Program

15.25 Sections 71 to 79 of the Petroleum Administration Act provide the legislative authority for the Oil Import Compensation Program. It is administered by the Petroleum Compensation Board within the Department of Energy, Mines and Resources. Under the Program, importers of crude oil and petroleum products are compensated so that the Canadian economy is cushioned from the impact of large and rapid increases in the price of imported crude oil used in Canada.

A summary of expenditures for the nine years to 31 March 1982 under the Oil Import Compensation Program is as follows:

Fiscal Year	Expenditures (thousands of dollars)
1973-74	$ 157,000
1974-75	1,162,000
1975-76	1,582,000
1976-77	945,000
1977-78	925,000
1978-79	628,000
1979-80	1,633,000
1980-81	3,162,000
1981-82	3,456,000
	13,650,000
Recovery of prior years' expenditures	99,000
	$ 13,551,000

The increase in expenditures from 1980-81 to 1981-82 is attributable to special compensation payments that are included in the 1981-82 figure. Partially offsetting this increase are declines from 1980-81 levels in the volumes of imports subject to ordinary compensation and in the average compensation rate applicable to those volumes.

Although the National Energy Program (NEP) states that the proceeds of a Petroleum Compensation Charge will be used to finance all petroleum compensation, 1981-82 expenditures continued to be funded by an annual appropriation because the Energy Administration Act, which provides the necessary legislative authority, did not receive royal assent until 7 July 1982.

However, the federal government attempted to apply the intent of the NEP by setting the charges levied under sub-section 65.12(1) of the Petroleum Administration Act and the Special Compensation Charge at levels that would generate revenues approximately equal to payments of import compensation, special compensation, and compensation on domestic synthetic crude and new conventional oil. These charges and other compensation payments are discussed in subsequent sections of this chapter. In addition, a section entitled Petroleum Compensation Accounting illustrates combined accounting for all charges and payments.

15.26 **Special compensation.** In response to the reduction of crude oil production by the Government of Alberta, the Petroleum Compensation Board, on the instruction of the Minister of Energy, Mines and Resources, introduced a program of special compensation, as provided for by section 72.1 of the Petroleum Administration Act, to be paid to importers on incremental import volumes required to substitute for the loss of domestic supplies. The program applied only to Quebec, since the National Energy Board allocated the available domestic production first to refiners west of Quebec, who do not have ready access to international markets, and second to Quebec refiners. Expenditures totalling $330.6 million were charged against the Program's appropriation and are included in the 1981-82 expenditures in the above table.

To finance the special compensation, under authority of a Notice of Ways and Means Motion to Amend the Petroleum Administration Act tabled in Parliament on 2 June 1981, the Minister introduced a temporary levy called the Special Compensation Charge. Proceeds from the Special Compensation Charge totalled $472.7 million and went into the Consolidated Revenue Fund.

Petroleum Compensation Revolving Fund

15.27 Section 65.12(1) of the Petroleum Administration Act provides legislative authority for imposing a levy on domestic and foreign petroleum as well as on foreign petroleum products that have been processed, consumed or sold in Canada. Section 65.1 stipulates that the proceeds from the levy be for the sole purpose of assisting in meeting the cost of paying compensation on deemed imports of petroleum, as authorized in section 72(4) of the Act. Domestic synthetic crude and new conventional oil have been deemed imported petroleum.

The levy under section 65.12(1) and compensation payments under section 72(4) are accounted for separately in the Petroleum Compensation Revolving Fund.

A summary of the operations of the Petroleum Compensation Revolving Fund since its beginning is presented in the following table.

Fiscal Year	Levy	Expenditures
	(thousands of dollars)	
1978-79 (9 months)	$ 66,000	$ 20,000
1979-80	389,000	378,000
1980-81	1,393,000	915,000
1981-82	3,792,000	737,000

The substantial increase in levy revenue during 1981-82 reflects the fact that the levy rate was at a much higher average level that year than in 1980-81. As we noted earlier, the higher levy is intended to fund all compensation payments under the Energy Administration Act, which received royal assent on 7 July 1982. However, because the new legislation was not in effect during 1981-82, these revenues could only be used to fund compensation on domestic synthetic crude and, during the last quarter of fiscal year 1981-82, new conventional oil, as defined in the pricing and taxation agreements with the producing provinces.

The decrease in expenditures during 1981-82 is mainly attributable to a sharp decline in the compensated volume of synthetic crude produced by one of the producers. The decline in the average compensation rate mentioned earlier also contributed to the decrease in expenditures. Compensation on new conventional oil partially offset the overall decrease in expenditures.

Petroleum Compensation Accounting

15.28 Section 50 of the Energy Administration Act eliminates the Petroleum Compensation Revolving Fund. In its place, the Energy Administration Act has created Petroleum Compensation Accounting. This is a broader concept that brings together the expenditures under the Oil Import Compensation Program and the revenues and expenditures of the Petroleum Compensation Revolving Fund.

The following illustration shows how the current year's transactions might be presented using Petroleum Compensation Accounting:

1981-82 Transactions

	(Millions of dollars)
Revenue:	
Petroleum Compensation Charge	$ 3,792
Special Compensation Charge	473
	4,265
Expenditure:	
Oil import compensation (including special compensation)	3,456
Synthetic crude and new conventional oil compensation	737
	4,193
Excess of revenue over expenditure	$ 72

Using this format to report 1981-82 transactions has the benefit of demonstrating the relationship discussed earlier between the levels of expenditures and the revenues raised by the Government to finance them. It shows that the Government set the levels of the Petroleum Compensation Charge and Special Compensation Charge according to the intent of the NEP.

15.29 **Audit Scope.** At present, we are conducting a comprehensive audit of the Department of Energy, Mines and Resources and have completed the first phase, relating to the Minerals and Earth Sciences Program. In preparation for the second phase, dealing with the Energy Program, we have expanded the scope of parts of our annual audit work, including the examination of the Oil Import Compensation Program. To provide Parliament with timely information, we are including in this chapter observations arising out of those portions of the comprehensive audit that have been completed to date.

Our examination of the financial transactions of the Oil Import Compensation Program and of the Petroleum Compensation Revolving Fund was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

15.30 **Conclusion - Financial Transactions.** In our opinion, payments in the fiscal year ended 31 March 1982 have been properly processed, and payment of compensation and collection of revenues is in conformity with applicable legislation and regulations.

Audit Observations

15.31 **Program effectiveness evaluation.** In considering the Auditor General's 1981 Report members of the Public Accounts Committee questioned the responsiveness of the Oil Import Compensation Program to changes in its operating environment and to changes in the country's policy needs. In view of this, our audit examined how program effectiveness evaluation had been used by the Petroleum Compensation Board to address this concern.

In 1979, the Central Evaluation Group of the Department of Energy, Mines and Resources produced a report entitled "A Selective Evaluation of the Impact of the Oil Import Compensation Program". As its title suggests, this report only attempted to address selected issues surrounding the program. Such a limited study is not satisfactory for a program of this magnitude which operates in a highly changing environment. The effect of this environment is illustrated by the following case.

In 1977, a change was made to the Petroleum Import Cost Compensation Regulations removing the requirement to adjust quantities of exported petroleum products for the volume loss inherent in the refining process. Consequently, although an exporter refunds import compensation when a product is exported, this refund is based on the volume of the product exported, not on the volume of imported crude required to produce that product. The result is that the amount refunded is less than would have been required before the regulation changed. Over the period in which the new regulation has been in force, the reduction in refunds has totalled an estimated $70 to $80 million, of which roughly half has been related to one particular refiner.

The change was made to remove what was considered to be an inequity in comparison with the manufacturing sector. Manufacturers of export products are permitted to take full advantage of the lower costs of subsidized imported crude oil products that they consume. However, exporters of petroleum products produced from imported crude stocks were required, prior to the change in 1977, to refund the portion of the subsidy attributable to normal refining loss.

Estimates of the cost of this measure were based on levels of compensation and export activity prevailing at the time it was introduced. In fact, compensation rates increased markedly because the domestic price level failed to approach world price levels as rapidly as expected. As well, export volumes increased. The loss in revenue resulting from this change now far exceeds the original estimate of $3 million per year or roughly $15 million over the five-year period since 1977.

In the above case, program effectiveness evaluation could examine whether the objectives of the regulation change have been achieved. This information could then be used to determine if the measure has been cost effective, in view of the larger than anticipated revenue loss.

15.32 **Compensation rate calculation.** In determining the compensation rate to be paid to importers in a particular month, the Petroleum Compensation Board first estimates, based on the experience of a previous three-month period, the expected mix of crude qualities to be imported. Second, it computes a composite "price" per cubic metre of "typical" imported crude, generally using producers' official selling price lists for each type of crude included in the estimated mix and the weighting factors determined from the proportion of each type of crude in the estimated mix. Such a procedure understandably results in differences between the computed mix and price and the actual mix and price in a particular month.

After the rate has been set, the Board may obtain more accurate or current information on actual selling prices than was used in setting the rate. Where use of this subsequent information would result in an adjustment of more than five cents a barrel, it is the Board's policy to revise the original rate.

We noted two instances during 1981-82 where, following the Board's guidelines for adjustment, revisions to the rate should have been made but were not. In the more significant of these cases, it was learned, subsequent to setting the rates for January, February and March of 1982, that an incorrect price had been used for one type of crude in these months. The March rate was adjusted, but the January and February rates were not. The effect on the January rate was below the 5 cents a barrel threshold; however, the effect on the February rate was 13 cents a barrel. The result was that excess compensation totalling $1.2 million was paid for the month of February 1982. A similar situation concerning the July 1981 rate resulted in payment of excess compensation totalling $809,000.

Litigation

15.33 Our 1981 Report noted the legal action undertaken by an importer to reverse a $1.9 million recovery by the Board of excessive freight compensation. The Board has since been advised by the legal counsel for the importer that the proceedings have been discontinued.

Legal action was begun by another importer to recover $3.7 million of compensation recovered by the Board pursuant to a decision by the Board that the importer had used an incorrect method of deducting exports of previously compensated oil.

Another legal action has also been started by the Trustee in Bankruptcy of an importer challenging the right of the federal government to offset $5.2 million of import compensation due to the importer against amounts owing by the importer to another federal government department.

Observations on Financial Statements of Departmental Accounts

15.34 **Canada Employment and Immigration Commission - Benefit Payment Process.** Our 1981 Report (paragraph 14.2) drew attention to weaknesses in the control by the Commission of the Benefit and Overpayment System of the Unemployment Insurance Account. Note 5 to the financial statements of the Unemployment Insurance Account for the year ended 31 December 1981 disclosed that the Commission, since 1979, implemented and expanded the application of new systems or other procedures to improve internal control and the decision-making process in respect of benefit payments. However, our audit established that overpayments and underpayments of benefits not previously identified by the Commission still exist, but to a lesser extent than in 1978. Our audit report to the Minister of Employment and Immigration brought this matter to his attention.

Background and scope of examination. During 1981, the Commission paid approximately $4.8 billion ($4.5 billion in 1978) in unemployment insurance benefits to about 2.4 million claimants (2.5 million in 1978) through the Benefit and Overpayment System.

To evaluate the changes mentioned above, this Office, with the co-operation and participation of the Commission's personnel, conducted studies to quantify the amount of any error in benefits paid that might have occurred as a result of such weaknesses. The results of these studies have been reported in our annual Reports since 1977. The methodology of this year's study is comparable to our 1978 study (1979 Report) when a quantification of benefit overpayments and underpayments was made.

Summary of findings. In summary, the examination results demonstrate that:

- Estimated overpayments of benefits have been reduced by $112 million and estimated underpayments by $10 million from 1978.
- Significant control weaknesses in the Benefit payment process continue to exist.
- The Commission's regular controls did not identify benefit overpayments in 1981 that were estimated at $178 million (identifiable overpayments of $104 million lying within a possible range of $48 million to $158 million and potential overpayments of $74 million lying within a possible range of $18 million to $126 million).
- The Commission's regular controls did not identify benefit underpayments in 1981 that were estimated to be $57 million (identifiable underpayments of $48 million lying within a possible range of $9 million to $87 million and potential underpayments of $9 million lying within a possible range of $0 million to $35 million).

Results of our study. The Office selected a statistical sample of 1,081 claimants to whom benefits had been paid during 1981 and performed a verification of their claims. We also carried out a review of internal control procedures in 132 of the Commission's local offices.

This verification indicated that some of the Commission's controls are operating effectively and that a substantial dollar value of benefit overpayments (approximately $70 million in 1981) is being detected regularly and, in most cases, recovered. However, the results of our study indicated that, during 1981, a significant additional amount of benefit overpayments escaped detection and that a further significant number of claims were subject to deviations from laid-down procedures.

It should be noted that a certain degree of imprecision is associated with the results of any statistical sample. Our estimate of the amount of overpayments and underpayments in the total population, projected from our sample results, is a "most likely value" of $178 million overpayments and $57 million underpayments.

The Commission's process is influenced by errors external to the Commission such as those relating to the accuracy and quality of the information provided by employers on the Record of Employment. Other errors, such as clerical errors, are internal and within the responsibility of the Commission.

An analysis, by type of error, of the 1981 results with comparative figures for 1978 is provided in the following tables.

Overpayments

	1981		1978		
	Errors in sample of 1,081	Most likely value*	Errors in sample of 1,043	Most likely value*	Decrease (increase) in most likely value*
Errors external to the Commission	179	54	427	194	140
Errors internal to the Commission	190	124	106	96	(28)
Total	369	178	533	290	112

* in millions of dollars

The decrease of $140 million in overpayments due to external errors is attributable, in large part, to the Commission introducing an amended Record of Employment Form and providing related guidance to employers' staff which resulted in more reliable data being supplied by employers. Another reason for this decrease is lower unreported earnings on the part of claimants. The increase of $28 million in overpayments due to internal errors is, for the most part, attributable to incorrect decisions and inadequate fact-finding on the part of the Commission's Agents.

Underpayments

	1981		1978		
	Errors in sample of 1,081	Most likely value*	Errors in sample of 1,043	Most likely value*	Decrease (increase) in most likely value*
Errors external to the Commission	147	31	240	54	23
Errors internal to the Commission	87	26	37	13	(13)
Total	234	57	277	67	10

* in millions of dollars

The net decrease in underpayments of $10 million is due to a decrease of $23 million ($31 million in 1981; $54 million in 1978) in errors attributable to employers and claimants and an increase of $13 million ($26 million in 1981; $13 million in 1978) in errors attributable to incorrect decisions and clerical errors on the part of the Commission's Agents.

For purposes of testing, we defined an overpayment as any benefit paid which, under existing legislation, the claimant should not have received and which was not dealt with immediately. An underpayment was defined as any benefit which, under existing legislation, the claimant should have received and which would have been legally payable had it been discovered, and which was not dealt with immediately.

As well as the monetary errors discussed above, the following types of errors were also identified. In the sample of 1,081 claims, 139 were subject to monitoring efforts we considered inadequate, and 217 were subject to compliance deviations (failure to comply with laid-down procedures) although they did not appear to contain errors in benefits paid.

Abuse. As we noted in our 1978 Report, we identified a number of cases which, while perhaps not overpayments as defined above, suggest the possibility of abuse by claimants. The term abuse is used to connote a discrepancy with the apparent intent of Parliament, in particular its insurance objective and its eligibility and active job search requirements. That is, although these cases may not strictly be in violation of the provisions of the Unemployment Insurance Act prevailing at the time, one can seriously question whether they correspond to the intent of Parliament. It would seem reasonable to infer that the intent of the law is to insure a contributor against loss of earnings during temporary unemployment while he is actively seeking and, within limits, until he obtains other suitable employment. However, as was the case in our 1978 audit of benefit payments, our review revealed situations in which the intent of the Act appears not to have been followed. For example, there are claimants who take early retirement with full pension benefits and may not seriously intend to work again on a full time basis.

The effect of this potential for abuse is not to create legal overpayments which could be recovered, but rather to permit disbursement of benefits in circumstances which the Act may not have intended. Because these abuses are related to ambiguities, omissions, faulty interpretations or unintended applications of the law and regulations, any value assigned to their possible magnitude would be highly arbitrary. Thus, it would not be meaningful to attempt to estimate even the gross dollar value of claims possibly subject to such abuse.

Control Weaknesses. Our examination indicated that, notwithstanding the efforts of the Commission to reduce estimated overpayments and underpayments, deficiencies still exist in local offices in the initial decision making process involving the payment of benefits. Our review of internal control also revealed weaknesses in the area of claims preparation, adjudication and follow-up.

Corrective Measures Undertaken by the Commission Since 1978. As mentioned previously in this Report, the Commission introduced a new Record of Employment Form which has reduced the estimated overpayments resulting from errors in data supplied by employers from $125 million in 1978 to $27 million in 1981.

In addition, other corrective measures were undertaken by the Commission, such as:

- development of a decision monitoring system which ensures that all initial claims and related decisions processed by the regional computer centres have been authorized and approved by insurance agents and have been correctly recorded;
- changes in the quality control and assurance systems to permit the detection and correction of errors before the data is processed by the computer and to identify the source of repetitive errors and to take the corrective measures required; and
- the introduction of a system called Report on Hiring, which requests employers to supply to the Commission, on a voluntary basis, information on new employees hired.

These measures have been implemented and our Office will evaluate the results of these changes during our comprehensive audit scheduled for 1983.

15.35 **Canada Pension Plan - Need to develop long-term financing arrangements.** We first drew the attention of Parliament to the funding of the Canada Pension Plan in paragraph 17.6 of our 1977 annual Report.

When the Plan was established in 1965, it was recognized that the combined employer-employee contribution rate of 3.6 per cent would be sufficient to meet benefits and cost of administration for a certain period of time and that a review of the financing arrangements would be required 10 to 15 years after beginning operation. In the initial years, the excess of contributions and interest income over benefits and expenses would result in the accumulation of funds, most of which would be made available to the Provinces. At 31 March 1982, the excess amounted to $21.5 billion (1981 - $18.9 billion).

Under the Plan, the Chief Actuary of the Department of Insurance is required to prepare an actuarial report on its operation and the state of the Canada Pension Plan Account at least once every five years. The most recent report, tabled in the House of Commons on 18 December 1978, indicated that if no change is made to the combined employer-employee contribution rate of 3.6 per cent, the annual cost of benefits and expenses would exceed the amount of annual contributions by 1985. If the increase in contribution rate were delayed beyond 1992, the balance of the Account would begin to decline and, by the year 2003, would be exhausted.

A change in the general level of benefits or in the rate of contributions requires agreement by the Provinces and, unless waived, a delay to at least January 1 of the third year following the year in which notice of change was laid before Parliament. These requirements and the action being taken to address long-term financing arrangements are disclosed in the last two paragraphs of Note 6 to the statements of the Canada Pension Plan Account and Canada Pension Plan Investment Fund for the year ended 31 March 1982.

A long-term financing philosophy for the Plan which will include the timing and rate of increase of the contribution rate is being considered by the Provinces and the Federal Government.

The establishment of a long-term financing philosophy had its beginning in 1977 when a sub-committee of the federal-provincial Continuing Committee of Officials on Fiscal and Economic Matters was given the task of assessing the Plan's financing issues. The technical phase of this work has been completed. During the past year the Federal Government and each of the ten provincial governments have proceeded with a policy development phase and each government has now developed its own policy options. Negotiations between the Federal Government and the Provinces are expected to commence in the near future.

In our audit report to the Minister of National Health and Welfare on the statements of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund for the year ended 31 March 1982, we pointed out that a decision on long-term financing arrangements needs to be made in the near future.

15.36 **Exchange Fund Account - Valuation of gold and accounting for the realized gains on sales of gold.** The Exchange Fund Account is an account in the name of the Minister of Finance, governed by the Currency and Exchange Act and administered by the Bank of Canada, to aid in the control and protection of the external value of the Canadian dollar.

Other Audit Observations

Our audit report to the Minister of Finance for the year ended 31 December 1981 included two accounting matters that should be brought to the attention of Parliament. In our opinion, the accounting policies of the Account in respect of these matters are not in accordance with section 16 of the Currency and Exchange Act. The two matters are:

- Gold is recorded at its approximate historical cost and not adjusted to its commodity market value. As a result, income does not include unrealized valuation gains on gold equal to the difference between commodity market value and approximate historical cost.

- Realized gains on sales of gold are recorded as valuation gains and taken into income in equal amounts over a three year period. In our opinion, section 16 of the Currency and Exchange Act requires that these gains be entirely taken into income of the year in which they are realized, and paid over to the Consolidated Revenue Fund within three months after the end of the year.

Officials of the Department of Finance are preparing proposed amendments to the Act to provide explicit authority for the accounting policies currently being followed by the Account.

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

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16

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

16.1 The Auditor General is an Officer of Parliament, governed by the mandate set out in the Auditor General Act, reproduced as Appendix A to this Report. Pursuant to that mandate, the Auditor General has stated that his mission is as follows:

- To make independent examinations of the accounts of federal departments and agencies and of other entities for which he is the appointed auditor, and to express his opinion on their integrity.
- To make such independent examinations and inquiries as he considers necessary, and based on them, to report on whether or not there were significant deficiencies in the management control systems and practices in the audited entity during the period under examination; thereby providing reasonable assurance, where possible, that:
    - public assets are safeguarded and controlled;
    - transactions are lawful and proper;
    - financial, human and physical resources are managed with due regard to economy and efficiency and procedures are in place to measure and report the effectiveness of programs.
- To call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, to communicate his findings and observations to management of the audited entity and to make any constructive recommendations he may have.
- To maintain the stature of his Office, share its expertise with domestic and international colleagues, and contribute to the development of comprehensive audit methodology and practices.
- To manage his Office with due regard for economy, efficiency and effectiveness, ensuring professional and administrative competence and adherence to applicable government policies.

Organization of the Office

16.2 During the past year there have been significant developments in the organization of the Office of the Auditor General. These changes have been designed to make audits more efficient and cost-effective, to enable the Office to improve its service to audited organizations and to meet the needs of its principal client, the House of Commons.

16.3 Our new, simplified organization is a response to the Government's Policy and Expenditure Management System (PEMS). Audit operations are organized so that the PEMS' 10 major expenditure areas or envelopes are audited by teams which concentrate in those areas. This provides for greater continuity within envelopes, increasing understanding of issues and improving relationships with clients.

16.4 The overall direction of the Office is the responsibility of the Executive Committee, comprising the Auditor General and the Deputy Auditors General. The Auditor General is the Chairman of this Committee.

16.5 There are now four Branches in the Office. The Audit Operations Branch is the heart of the organization. The other branches, Professional Services, Administrative Services and the Executive Office essentially serve to support the work of Audit Operations. Exhibit 16.1 shows the organization of the Office.

Audit Operations

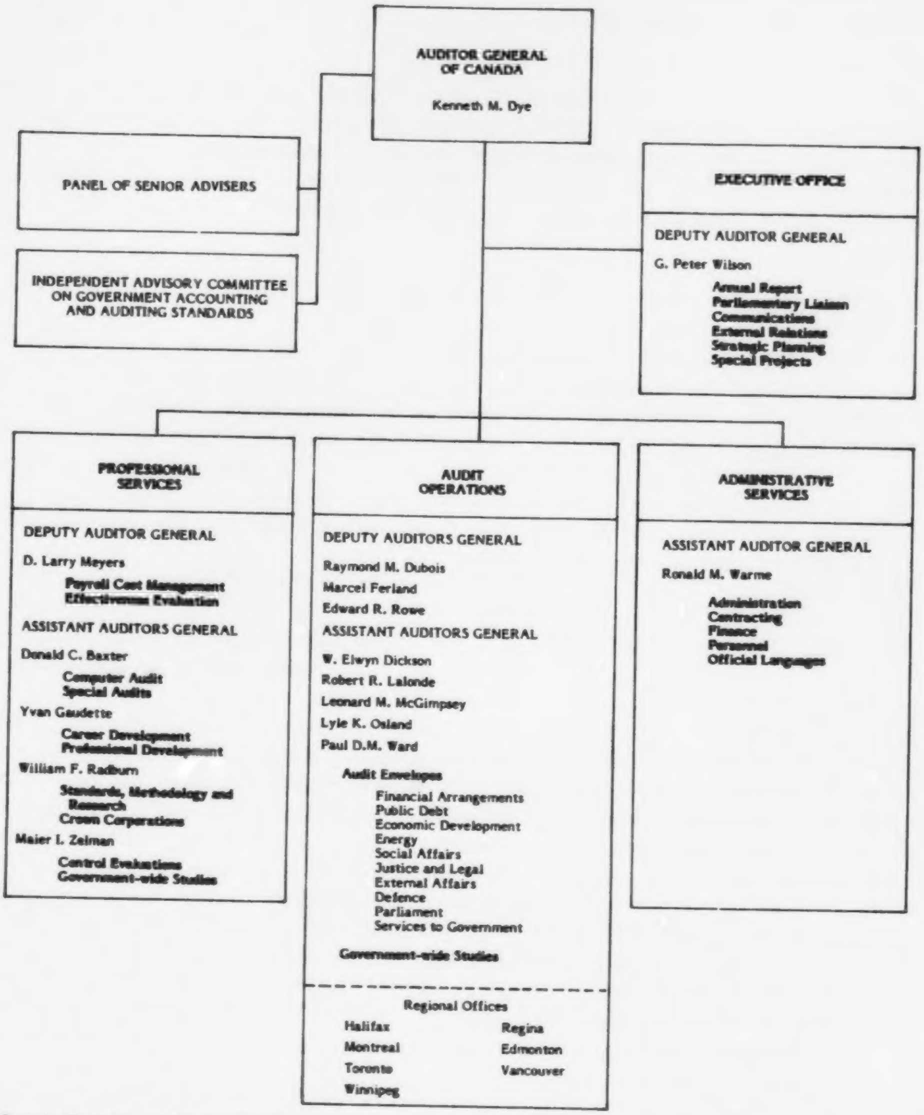
16.6 The Audit Operations Branch plans and conducts the audits of federal departments and agencies and of other entities for which the Auditor General is the appointed auditor.

16.7 The Branch is organized on an envelope system with responsibilities for auditing some 150 entities, distributed to 10 envelopes. The Branch employs some 260 auditors in Ottawa and in seven regional offices located in Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver. It also uses specialist staff of the Professional Services Branch to assist in conducting comprehensive and government-wide audits. To supplement its own staff resources, Audit Operations makes extensive use of professionals from the private sector either on individual service contracts or through the Public Service Commission's Interchange Canada Program.

16.8 Members of the Branch and the Auditor General attend meetings of the Public Accounts Committee as witnesses and give evidence with regard to matters presented in the Auditor General's Report. The Branch co-ordinates the Office's relationship with the external auditors of those Crown corporations where the Auditor General is not the appointed auditor.

Exhibit 16.1

OFFICE OF THE AUDITOR GENERAL
PLAN OF ORGANIZATION
SEPTEMBER 1982


AUDITOR GENERAL OF CANADA
Kenneth M. Dye
PANEL OF SENIOR ADVISERS
INDEPENDENT ADVISORY COMMITTEE ON GOVERNMENT ACCOUNTING AND AUDITING STANDARDS
EXECUTIVE OFFICE
DEPUTY AUDITOR GENERAL
G. Peter Wilson
Annual Report
Parliamentary Liaison
Communications
External Relations
Strategic Planning
Special Projects
PROFESSIONAL SERVICES
DEPUTY AUDITOR GENERAL
D. Larry Meyers
Payroll Cost Management
Effectiveness Evaluation
ASSISTANT AUDITORS GENERAL
Donald C. Baxter
Computer Audit
Special Audits
Yvan Gaudette
Career Development
Professional Development
William F. Radburn
Standards, Methodology and Research
Crown Corporations
Maier I. Zeiman
Control Evaluations
Government-wide Studies
AUDIT OPERATIONS
DEPUTY AUDITORS GENERAL
Raymond M. Dubois
Marcel Ferland
Edward R. Rowe
ASSISTANT AUDITORS GENERAL
W. Elwyn Dickson
Robert R. Lalonde
Leonard M. McGimpsey
Lyle K. Osland
Paul D.M. Ward
Audit Envelopes
Financial Arrangements
Public Debt
Economic Development
Energy
Social Affairs
Justice and Legal
External Affairs
Defence
Parliament
Services to Government
Government-wide Studies
Regional Offices
Halifax
Montreal
Toronto
Winnipeg
Regina
Edmonton
Vancouver
ADMINISTRATIVE SERVICES
ASSISTANT AUDITOR GENERAL
Ronald M. Warme
Administration
Contracting
Finance
Personnel
Official Languages

Executive Committee - Auditor General (Chairman), Deputy Auditors General

16.9 Audit Operations is responsible for the audit assignments of students enrolled in programs leading to designation as a Chartered Accountant, Certified General Accountant or Registered Industrial Accountant. The aim is to provide them with practical experience to meet prerequisites for professional accreditation. Auditors from developing countries, participating in an international assistance program, are assigned to the Branch to obtain training and practical experience in comprehensive auditing.

16.10 Audit Operations Branch staff are regularly called upon to participate in special projects initiated by the Executive Office, Professional Services and Administrative Services branches. These projects include international audits, government-wide projects, development of audit methodology, financial and administrative tasks, and professional development courses.

Professional Services

16.11 The Professional Services Branch supports the Audit Operations Branch by providing the additional knowledge and skills needed to carry out comprehensive audits. This is achieved through a combination of written guidance and training programs prepared for professionals in audit operations, and by supplying advice or specialists to perform audits. To ensure the process is effective, the Branch also performs a quality control function. Four groups make up the Branch: Standards, Methodology and Research; Professional Development; Control Evaluations; and Computer Audit.

16.12 The Standards, Methodology and Research group is responsible for developing and maintaining auditing standards, managing auditing methodology development, providing functional direction for issues related to Crown corporations, and conducting auditing research. Methodology, in the form of Audit Guides, is made available to staff to assist in the conduct of audits in specific areas. This past year has been particularly productive in capturing comprehensive auditing methodology for purposes of ensuring greater quality and consistency in the work we do as well as sharing such methodology with other legislative auditors in Canada and around the world. An outstanding example of this was the publication of "An Approach to Comprehensive Auditing" which has been made available both to our staff and to the management of organizations where we do our audits. Audit Guides dealing with such subjects as "Auditing of Procedures for Effectiveness" and "Evaluation of Internal Audit" were also produced during the year. Standards and procedures are assessed through post-audit quality review. Changes are conveyed through issuing Accounting and Auditing Bulletins and revising the Office's Comprehensive Auditing Manual. Research in auditing is conducted to develop ways of improving audits and to ensure that the most appropriate and efficient audit tools and techniques are adopted.

16.13 The Professional Development group is responsible for training and development and for the career development program of the Office. It also provides training and development assistance to some outside organizations through the Canadian Comprehensive Auditing Foundation. The responsibilities of the Professional Development group include designing, developing and delivering training and development courses for all Office staff in both official languages, and providing assistance in career planning related counselling services. During the year, the group provided some 2,330 training days internally and 780 training days in courses outside the Office. There were 26 in-house training courses for staff.

16.14 The Control Evaluations group provides professional specialist advice and assistance to comprehensive audit teams. This is done by ensuring that qualified staff are assigned to audits, maintaining an inventory of consultants capable of providing necessary services, providing functional guidance during the audit and by ensuring quality control.

16.15 The Computer Audit group provides expertise and methodology in the areas of value-for-money assessments of expenditures on electronic data processing and financial control assessments in computerized systems. It has the facility for analysing information held on computer files through the use of specially created audit software. In addition, sampling specialists assist in designing and analyzing sampling plans.

Administrative Services

16.16 The Administrative Services Branch provides all central support services throughout the Office and ensures compliance with applicable administrative, financial, official languages and personnel policies. These services are offered through five groups.

16.17 The Administration group provides administrative support services including information and library, mail and messenger, materiel, records, word processing, audio-visual, graphics, accommodation, telecommunication, receptionist and security services.

16.18 The Contract Administration group negotiates all contracts for professionals and monitors their engagement. This includes extensive use of the Public Service Commission's Interchange Canada program whereby private sector professionals are brought into the Office for assignments of up to two years.

16.19 The Comptroller's group administers the Office's financial management control and information systems and provides financial planning, systems development and electronic data processing services.

16.20 The Personnel group is responsible for personnel management including recruitment, compensation planning and services, staff relations and human resource planning. From time to time this group also assists the Office with government-wide audits of payroll costs management.

16.21 The Official Languages group develops and implements the Office's policies on bilingualism.

Executive Office

16.22 The Executive Office is responsible for a number of matters of direct personal concern to the Auditor General. These include reports to Parliament, parliamentary liaison, communications, strategic planning, legal matters, and relations with international and provincial Auditors General and related institutes and associations in the accounting and management consulting professions. These services are provided through three groups.

16.23 The Reports group is responsible for editing and producing reports to Parliament, providing reporting guidelines to audit teams and editorial service for material written for internal and external distribution. The principal product of the group is the annual Report of the Auditor General to the House of Commons.

16.24 The Parliamentary Liaison group is responsible for co-ordinating the Office's relations with Parliament and the Public Accounts Committee (PAC) of the House of Commons. This involves audit team preparation for PAC hearings and assistance to Committee members and staff. This group also helps to ensure that the reports to Parliament reflect the needs of Members.

16.25 The Communications group is responsible for internal and external communications in the Office. This includes production of Office publications such as AG Magazine and OAG News, relations with the media and responding to inquiries from the public.

Advisers to the Auditor General

16.26 The Auditor General has two main groups of outside advisers. Both groups include leading members of the accounting and management consulting professions. The Panel of Senior Advisers counsels the Auditor General on the application of comprehensive auditing, with particular emphasis on public sector corporate entities. Members of the Panel are:

- Kenneth G. Belbeck, F.M.C.
  President,
  Thorne Stevenson & Kellogg
- James J. Macdonell, F.C.A.
  Chairman,
  Canadian Comprehensive
  Auditing Foundation

- H. Marcel Caron, F.C.A.
  Executive Partner,
  Clarkson Gordon

- Warren Chippindale, F.C.A.
  Chairman and Chief
  Executive Partner,
  Coopers & Lybrand

- Gordon H. Cowperthwaite, F.C.A.
  Chairman,
  Peat, Marwick, Mitchell & Co.
  and Peat, Marwick & Partners

- Kenneth S. Gunning, F.C.A.
  Executive Partner,
  Thorne Riddell

- Edward W. Netten, C.A.
  Managing Partner,
  Price Waterhouse Associates

- Robert M. Rennie, C.A.
  Chairman of the Board,
  Touche Ross & Co.

- Eddie C. Wilburn, F.C.A.
  former Senior Partner,
  Deloitte Haskins & Sells

16.27 The Independent Advisory Committee on Government Accounting and Auditing Standards is comprised of senior representatives of accounting firms, management consulting firms, and the academic community. The Committee reviews major documents, such as the opinion and observations on the annual financial statements of the Government and the Office's Comprehensive Auditing Manual and Audit Guides. Members are:

- Rodney J. Anderson, F.C.A.
  Executive Partner,
  Clarkson Gordon

- Kenneth F.Y. Baynton, C.A.
  Partner,
  Thorne Riddell

- Donald A. Brown, C.A.
  Executive Partner,
  Coopers & Lybrand

- Alan J. Dilworth, F.C.A.
  Managing Partner,
  Touche Ross & Co.

- Alwyn D. Lloyd, C.A.
  Senior Partner,
  MacGillivray & Bruneau

- P. Howard Lyons, F.C.A.
  Partner,
  Deloitte Haskins & Sells

- Guy Martin, C.A.
  Partner,
  Raymond, Chabot, Martin,
  Paré & Associés

- Edward W. Netten, C.A.
  Managing Partner
  Price Waterhouse Associates

- Ronald B. Robinson, F.M.C.
  Partner,
  Thorne Stevenson & Kellogg

- Professor L.S. Rosen, F.C.A.
  Faculty of Administrative Studies,
  York University

- William R. Sloan, F.C.A.
  Partner,
  Arthur Andersen & Co.

- W. Ross Walker, F.C.A.
  Senior Partner,
  Peat, Marwick, Mitchell & Co.

Reporting Responsibilities

16.28 Four sections in the Auditor General Act detail our responsibility to report to Parliament.

16.29 Section 6 requires the Auditor General to express an opinion on the financial statements of the Government of Canada. Section 7 requires the Auditor General to report annually to the House of Commons anything that he considers to be of significance and of a nature that should be brought to its attention, including cases where public funds have been expended without due regard to economy or efficiency, or where procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented. Section 8 enables the Auditor General to make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until his annual Report is tabled. Finally, Section 11 permits the Auditor General to inquire into and report on matters in response to requests from the Governor in Council. Under this section, the Office continued its examination of the Oil Import Compensation Program, referred to in Chapter 15 of this Report.

16.30 The Auditor General is also required to express an opinion, as either the auditor or joint auditor, on the accounts of 34 agency and proprietary Crown corporations, in accordance with section 77 of the Financial Administration Act, and 50 departmental Crown corporations and other entities, including the accounts of the Governments of the Yukon Territory and Northwest Territories and their agencies. As well, the Auditor General is the external auditor of the International Civil Aviation Organization (ICAO).

Office Resources

16.31 The growing complexity of government operations, the sophistication of modern accounting systems and audit techniques and the changing and expanding responsibilities of the Audit Office require a skilled staff of high quality. The Office attempts to recruit and develop highly qualified people in accounting and auditing as well as a variety of other fields. Among the professionals in the Office are engineers, sociologists, economists and graduates in many other disciplines. Members of the staff have more than 90 post-graduate degrees, including 10 doctorates.

16.32 The Office staff includes some 135 members who have the designation of Chartered Accountant (CA), another 30 Registered Industrial Accountants (RIA) and 42 Certified General Accountants (CGA).

16.33 The following table presents a profile of the full-time staff of the Office. It excludes persons serving on executive interchange agreements or those on professional service contracts.

	1 August 1982	31 March 1982	31 March 1981
Principals	58	55	50
Directors and Managers	100	92	76
Supervisors and Auditors	137	126	134
Other audit staff	68	62	69
Administrative support staff	162	163	153
	525	498	482
National Capital Region	434	418	401
Other Regions	91	80	81
	525	498	482

16.34 During 1981-82, greater efficiency and cohesion in the work of the Office was achieved when over 114 members of the administration staff, located in another building, moved to the Office's headquarters. This move, coupled with internal reorganization, has produced savings both in terms of financial resources and operational efficiency and should reduce the proportion of overhead to operating costs in the coming year. A continuing effort is under way to reduce overhead costs as much as possible.

Use of Private Sector Resources

16.35 While the Office moves toward increasing the number of full-time professional staff to carry out comprehensive audits, it continues to make use of resources from the private sector. Experienced professionals join the Office under the Public Service Commission's Interchange Canada Program or serve through professional service contracts. A variety of specialized knowledge and experience is thus available to the Office on a cost-effective basis when it is required. This intermixing of skills has proved to be an enriching experience for professionals in both the public and private sectors. At 1 August 1982, the Office had 15 participants associated under Interchange Canada, and 221 men and women from the private sector under professional service contracts.

International Activities

16.36 Through its long association with the United Nations and other international organizations, Canada has acquired a wide reputation in public sector auditing that is recognized by countries and organizations around the world. The work of the Audit Office is also well known and respected by the International Organization of Supreme Audit Institutions (INTOSAI), where the Auditor General serves on the governing board, the United Nations, where Canada is on the Panel of External Auditors, NATO, where we serve on the Board of Audit; and the association of Commonwealth Auditors General.

16.37 Canada has been the external auditor of the International Civil Aviation Organization (ICAO) since it was formed in 1947. ICAO is a United Nations specialized agency based in Montreal. Its aims and objectives are "to develop the principles and techniques of international air navigation and to foster the planning and development of international air transport." We reported this year that significant action has been taken by ICAO to implement recommendations arising from our 1978 financial management and control review. ICAO is continuing to revise its financial regulations and make improvements in budgetary control procedures. The concepts of comprehensive auditing are being applied in our work at ICAO, and this important international organization has welcomed and implemented many of the recommendations that have been made as a result.

16.38 The Office has been involved in several other significant international activities over the past year. When the People's Republic of China was faced with developing the legislative audit function called for in its proposed new constitution, it sought advice from the United Nations. Canada, the United States and Japan were identified as countries in the forefront of government auditing. As a result, the United Nations sponsored a group of four senior Chinese officials to review the nature of legislative auditing in Canada. The group was given detailed briefings on the work of the Office and also had the opportunity to review public sector audit arrangements at the provincial level in British Columbia and at the municipal level in Ottawa. The visit of this Study Group to Canada demonstrated the high regard in which Canada's auditing accomplishments are held throughout the world. Other high level delegations from the United States, Czechoslovakia and Mexico, as well as numerous individuals from around the world, also visited the Audit Office last year.

16.39 The Audit Office is becoming increasingly involved in international assignments for Canadian auditors. Under the Public Service Commission's Interchange Canada and International Programs, Canadian auditors are working with the Asian Development Bank in Manila, the Auditor General's Office in Nairobi, the NATO Board of Audit in Brussels, and the Auditor General of Vanuatu, formerly the New Hebrides.

16.40 The international horizons of the Audit Office are further broadened by the International Audit Office Assistance Program. This program is financed by the Canadian International Development Agency and administered by the Canadian Comprehensive Auditing Foundation. The facilities of the Audit Office are used in both the training and fellowship components of the Program. The Canadian Comprehensive Auditing Foundation, working with our staff, has conducted a training course for public sector auditors from Latin American countries in Bogota, Colombia, and for English-speaking African nations in Nairobi, Kenya. Further courses are planned for French-speaking African nations and for Asian countries. Auditors from Chile, Ghana, Kenya, Malaysia, Peru, the Philippines, St. Lucia and Singapore have completed the fellowship component of the Program in the Office of the Auditor General of Canada. Similar one-year assignments in the Audit Office are currently being undertaken or planned for Fellows from Brazil, Colombia, Jamaica, Malaysia, Nepal, Nigeria, Sri Lanka, Tanzania, Thailand and Trinidad and Tobago.

16.41 These international activities are an important part of the work carried on by the Office of the Auditor General, and we look forward to new opportunities where Canada can both learn and contribute knowledge in the area of public sector and legislative auditing around the world.

Official Languages

16.42 Appearing before the Special Joint Committee of the Senate and the House of Commons on Official Languages on 24 November 1981, the Auditor General reiterated his commitment to make the Office truly bilingual. His intention is to create both an environment where office employees may work in the language of their choice and a capability to serve the clients of the Office in both official languages. A specialized language training program has been developed for the Office. Staff members are encouraged to make greater use of both official languages in meetings and presentations.

Retirements

16.43 Deputy Auditor General W. Wallace Muir, who headed the Finance and Administration Branch, retired after 18 years in the Public Service. Deputy Auditor General William F. Nelson, who headed the Human Resources Branch, retired after 19 years.

16.44 Other members of the Audit Office who retired before 1 August 1982, and their period of service in the public service, were: J. Colin Orme, B. Comm., RIA, a Senior Auditor, 34 years; J. Angus Wyatt, BA, CA, an Audit Director, 34 years; Robert J. Ince, B. Comm., an Auditor, 33 years; Paul Douville, a Compensation Systems Project Assistant, 31 years; Lucille M. Tessier, a Clerk, 24 years; Mary E. Smith, a Secretary in our Halifax Office, 19 years; Edward P. Deck, RIA, a Senior Auditor in our Regina Office, 15 years; Carmen Côté, a Secretary, 13 years and Amélie Wells, CGA, a Senior Project Officer, 6 years.

Estimates and Expenditures

16.45 Exhibit 16.2 presents the estimates and expenditures of the Office, by activity and by object. Expenditures in 1981-82 rose by $5,246,000 or 19.7 per cent over 1980-81. However, the cost of the Office in relation to the federal

Exhibit 16.2

OFFICE OF THE AUDITOR GENERAL OF CANADA

ESTIMATES AND EXPENDITURES

Estimates and Expenditures by Activity

	1982-83	1981-82		1980-81	
	Estimates	Estimates	Expenditures	Estimates	Expenditures
		(thousands of dollars)			
Government Audits	29,363	26,781	26,072	24,539	22,019
Other Audits	134	113	102	251	205
Administration	5,766	5,374	5,707	3,980	4,411
TOTAL	35,263	32,268	31,881	28,770	26,635

Estimates and Expenditures by Object

	1982-83	1981-82		1980-81	
	Estimates	Estimates	Expenditures	Estimates	Expenditures
		(thousands of dollars)			
Salaries and Wages	19,735	17,536	16,740	15,403	14,049
Employee Benefit Plans	2,566	2,637	2,639	2,012	2,016
Transportation and Communications	1,615	1,145	1,843	1,396	1,174
Information	95	115	83	176	63
Professional and Special Services including Executive Interchange	9,981	9,680	9,036	8,770	8,264
Rentals	332	245	390	335	275
Purchased Repair and Upkeep	22	40	118	77	47
Utilities, Materials and Supplies	525	515	389	493	500
Construction and Acquisition of Machinery and Equipment	67	61	340	102	134
Grants and Contributions	320	290	288	-	108
All Other Expenditures	5	4	15	6	5
TOTAL	35,263	32,268	31,881	28,770	26,635

government's budgetary estimates dropped from .0477 per cent in 1980-81 to .0462 per cent in 1981-82, or less than five cents for every $100 of government spending as set out in the Estimates. It should be noted, however, that the responsibilities of the Office include the audit of many billions of dollars of non-budgetary expenditures and receipts not included in the Estimates, such as the Unemployment Insurance and Canada Pension programs, the activities of Crown corporations and government loan and guarantee programs. Estimates for the 1982-83 fiscal year show that the rate of increase in expenditures for the Office has declined. Since 1980-81, Appropriations to the Office have consistently decreased below the 1980-81 Appropriations in constant dollars.

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APPENDIX A

AUDITOR GENERAL ACT

25-26 ELIZABETH II

CHAPTER 34

An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto

[*Assented to 14th July, 1977*]

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

PART I

SHORT TITLE

Short title

1. This Part may be cited as the *Auditor General Act*.

INTERPRETATION

Definitions

2. In this Act,

"Auditor General"

"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"Crown corporation"

"Crown corporation" has the meaning assigned to that expression by subsection 66(1) of the *Financial Administration Act;*

"department"

"department" has the meaning assigned to that term by section 2 of the *Financial Administration Act;*

"registrar"

"registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*.

AUDITOR GENERAL OF CANADA

Appointment and tenure of office

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.

DUTIES

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons

(*a*) on the work of his office; and

(*b*) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(*a*) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(*b*) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(*c*) money has been expended other than for purposes for which it was appropriated by Parliament;

(*d*) money has been expended without due regard to economy or efficiency; or

(*e*) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Submission of reports to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Special report

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Submission of report to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 20(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Idem

9. The Auditor General shall

(*a*) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require; and

(*b*) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act;*

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

STAFF OF THE AUDITOR GENERAL

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in *Appropriation Acts*, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*,

other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 32 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 5(1)(*e*) and section 7 of that Act.

Collective agreements

17. Any collective agreement affecting persons employed in the office of the Auditor General entered into before the coming into force of this Act remains in force and binds the Auditor General as employer of such persons until the expiry of that agreement.

Classification standards

18. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

19. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 55 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

ESTIMATES

Estimates

20. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Appropriation allotments

21. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of office of the Auditor General

22. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

PART II

CONSEQUENTIAL AND RELATED AMENDMENTS

R.S., c. F-10

23. Part VII of the *Financial Administration Act* is repealed.

R.S., c. P-35

24. (1) Part I of Schedule I to the *Public Service Staff Relations Act* is amended by deleting therefrom the words "Office of the Auditor General of Canada".

(2) Part II of Schedule I to the *Public Service Staff Relations Act* is amended by adding thereto the words "Office of the Auditor General of Canada".

R.S., c. E-8

25. Section 16 of the *Established Programs (Interim Arrangements) Act* is repealed and the following substituted therefor:

Powers of Auditor General

"**16.** Nothing in this Act shall be construed to restrict the powers of the Auditor General of Canada under the *Auditor General Act*."

1970-71-72, c. 52

26. Section 27 of the French version of the *Pilotage Act* is repealed and the following substituted therefor:

Vérificateur général

"**27.** Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre."

R.S., c. N-22

27. Subsection 23(5) of the *Northwest Territories Act* is repealed and the following substituted therefor:

Powers of Auditor General

"(5) The Auditor General has, in connection with his examination of the accounts of the Territories, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada."

R.S., c. Y-2

28. Subsection 26(5) of the *Yukon Act* is repealed and the following substituted therefor:

Powers of Auditor General

"(5) The Auditor General has, in connection with his examination of the accounts of the Territory, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada."

1970-71-72, c. 48

29. Section 15 of the French version of the *Unemployment Insurance Act, 1971* is repealed and the following substituted therefor:

Vérification

"**15.** Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre."

Amendments to French version

30. Whenever, in the French version, the expression "auditeur général" appears in any provision of an Act listed in the schedule to this Act, there shall in every case, unless the context otherwise requires, be substituted the expression "vérificateur général".

PART III

COMMENCEMENT

Coming into force

31. This Act shall come into force on a day to be fixed by proclamation.

(The Act came into force 1 August 1977)

APPENDIX B

FINANCIAL ADMINISTRATION ACT -

EXTRACTS FROM PART VIII

FINANCIAL ADMINISTRATION ACT

R.S., c. F-10

Extracts from Part VIII

CROWN CORPORATIONS

Access to books, etc

76. The auditor is entitled to have access at all convenient times to all records, documents, books, accounts and vouchers of a corporation, and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary. R.S., c. 116, s. 86.

uditor's report

77. (1) The auditor shall report annually to the appropriate Minister the result of his examination of the accounts and financial statements of a corporation, and the report shall state whether in his opinion

(*a*) proper books of account have been kept by the corporation;

(*b*) the financial statements of the corporation

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(*c*) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation;

and the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

Other reports

(2) The auditor shall from time to time make to the corporation or to the appropriate Minister such other reports as he may deem necessary or as the appropriate Minister may require.

Annual report

(3) The annual report of the auditor shall be included in the annual report of the corporation.

Audit

(4) Notwithstanding section 68, this section operates in lieu of section 132 of the *Canada Corporations Act* or sections 159 to 161 of the *Canada Business Corporations Act*, as the case may be.

Report through Minister

78. In any case where the auditor is of the opinion that any matter in respect of a corporation should be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, such report shall be made forthwith through the appropriate Minister. R.S., c. 116, s. 88.

APPENDIX C

REPORTS OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS:

Page

NINTH REPORT - November 23, 1981 577

(Department of National Revenue - Taxation)

TENTH REPORT - November 23, 1981 579

(Department of Veterans' Affairs)

TWELFTH REPORT - December 17, 1981 581

(Information for Parliament - Reform of the Estimates)

THIRTEENTH REPORT - March 22, 1982 583

(Financial Statements of the Government of Canada for the fiscal year ended March 31, 1981)

FOURTEENTH REPORT - May 26, 1982 585

(Corporation of the National Museums of Canada)

FIFTEENTH REPORT - May 26, 1982 587

(Eldorado Nuclear Limited and Eldorado Aviation Limited)

SIXTEENTH REPORT - June 23, 1982 589

(Post Office Department)

SEVENTEENTH REPORT - July 30, 1982 591

(The Miscellaneous Report)

(Note: The Eleventh Report, November 23, 1981, dealt with the administration of the Committee and is not reproduced in this Appendix).

NINTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, NOVEMBER 23, 1981

REPORTS TO THE HOUSE

Monday, November 23, 1981

The Standing Committee on Public Accounts has the honour to present its

NINTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal year ending March 31, 1980 and, in particular, Chapter 8, Comprehensive Audit of the Department of National Revenue—Taxation (the Department).

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee heard testimony on the major issues arising from the comprehensive audit of the Department, with emphasis on:

(*a*) the tax gap; and

(*b*) the need for improved Electronic Data Processing (EDP) security measures.

The Tax Gap

4. The Department stated that the tax gap, which it defined as an estimate of the dollar value of non-compliance by taxpayers (based on a random sample of all categories of taxpayers), had proven to be a costly and unsatisfactory measure of effectiveness for compliance programs.

5. The Auditor General disagreed with the Department about the value of obtaining tax gap information. The Auditor General views the tax gap both as a measure of the Department's program effectiveness and as a potential means to reduce non-compliance by aiding the Department to identify categories of individuals and corporations who are not complying with the tax laws. The Auditor General recommended that any tax gap information compiled by the Department be disclosed to Parliament.

6. Your Committee notes the differing views of the Auditor General and the Department on the tax gap and agrees with the Department that better techniques to measure program effectiveness than the tax gap, should be pursued. The Department has indicated to the Auditor General that it will generate further tax gap information on a five-year cycle. Your Committee suggests that the Department abandon the collection of such information in view of the unreliability of the estimate, the undue cost involved, and the potential negative impact on taxpayer compliance that publishing this information would have.

7. Your Committee noted the testimony of an independent witness, formerly employed by the Department, who stated that the Department had not made full or proper use of a computer system developed by him. This computer system, although initially designed as an aid to employee evaluation (and capable of generating cost savings for the Department in that area), could also yield information which would enable the Department to reduce the tax gap by identifying individuals and corporations which were not in full compliance with the tax laws.

The Need for Improved EDP Security Measures

8. Your Committee noted the distinction between continuity of the Department's EDP operations, on the one hand, and disaster planning with respect to these operations, on the other hand. Your Committee is satisfied that sufficient evidence has been presented to the effect that continuity of the Department's EDP operations is assured by measures presently in place.

9. Your Committee does not consider that further expenditure of resources for disaster planning by the Department is warranted.

Recommendations

10. Your Committee recommends that:

(*a*) the Department significantly improve its computer systems so that individuals and corporations not in full compliance with the tax law be identified;

(*b*) the Department abandon the collection of tax gap information;

(*c*) the Department introduce techniques to measure overall program effectiveness;

(*d*) the Department ensure that there is no unnecessary duplication of computer material;

(*e*) the Department not devote further resources to disaster planning in view of the general satisfaction of this Committee with the measures already in place to ensure continuity of EDP operations; and

(*f*) the Department report back to your Committee by March 31, 1982 and respond to the recommendations made in this Report.

11. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 30, 31, 38 and 39 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

Chairman

TENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, NOVEMBER 23, 1981

REPORTS TO THE HOUSE

Monday, November 23, 1981

The Standing Committee on Public Accounts has the honour to present its

TENTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal year ending March 31, 1980 and, in particular, Chapter 10, the Comprehensive Audit of the portfolio of the Department of Veterans' Affairs (the Department). The Auditor General understands that this portfolio includes the Canadian Pension Commission and three other agencies associated with the Department of Veterans' Affairs proper. Your Committee, while adopting this usage of the Auditor General in this report, notes that the Canadian Pension Commission is an independent body.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee heard testimony on the major issues arising from the comprehensive audit of the Department, with emphasis on:

(*a*) readjustment to the aging veteran;

(*b*) relocation of the Department to Charlottetown, P.E.I.;

(*c*) transfers of hospitals from the Department to the provinces; and

(*d*) "sunset" provisions for departmental programs.

Readjustment to the Aging Veteran

4. The Department presented statistics which projected a significant increase in the number of veterans aged 65 and over with the peak occurring in 1991. Age 65 is a common retirement age and also the time when the manifestations of aging begin to appear, thereby generating increased demand for the related services of the Department.

5. The Auditor General was concerned that the Department's planning process is inadequate. Your Committee shares this concern.

6. In view of increasing demand for pensions, which are under the jurisdiction of the Canadian Pension Commission, the Auditor General was also concerned about unduly lengthy pension processing times. The average processing time, based on Canadian Pension Commission estimates and data contained in Commission reports for May 1980, is 11 months if a pension application is successful at the Commission level. If, on the other hand, a pension application goes through all levels of the adjudication process, the average processing time can extend to 46 months. Such lengthy processing times are completely unacceptable to your Committee. Therefore, your Committee recommends that the Canadian Pension Commission provide your Committee with a report by March 31, 1982 indicating the resource costs, and the systems and legislative changes which would be required to enable the Commission to process pension applications through all levels in a maximum of 180 days.

7. The Auditor General recommended that the Canadian Pension Commission formalize pension processing time standards. Such standards would enable the Commission to register each application and follow it through the system so that at any given time it can be determined not only at what stage of processing it is, but also how long it has been there and why. The Commission has promised that these standards will be in place by the end of 1981.

8. Your Committee recommends, in view of the importance of prompt payment to potential pension recipients, that the Canadian Pension Commission take measures beyond its proposed implementation of processing time standards in order to expedite pension settlements.

Relocation of the Department to P.E.I.

9. Your Committee is concerned about the negative effects of the relocation of the Department to Charlottetown, P.E.I. For example, the Department will not provide sustained opportunities for regional economic development because, within twenty years, the need for such a department may disappear. Another negative factor is the disruption in the Department's services caused by staff dislocation (in terms of communications and other facilities in the new headquarters) and by the unwillingness of most personnel to relocate. These problems are compounded by the possibility that the officials of the

Department will use the relocation as an excuse for future inefficiency.

10. Despite the obvious costliness of the relocation, your Committee is of the opinion that the move, if it must be made, be completed with due regard for economy and efficiency. In addition, the Department should ensure that there is no duplication of head office staff between P.E.I. and Ottawa.

Hospital Transfers

11. Although a major part of the Department's rationale for hospital transfers to the provinces related to the need to guarantee the high quality of hospital care enjoyed by veterans, several Committee members had received complaints to the effect that this care had deteriorated. Many veterans who are treated in transferred hospitals have feelings of alienation and other complaints, yet the Department often denies its responsibility for their problems.

12. Your Committee recommends that the Department take stronger measures than are presently in force to minimize and, if possible, eliminate problems faced by veterans in terms of the level and quality of treatment afforded them in hospitals which have been transferred. The manner in which veterans' complaints are received should be reviewed in an endeavor to monitor conditions and to correct situations that are already unreasonable.

13. Your Committee noted that cost-sharing agreements with provinces relating to services provided to veterans in both transferred and Veterans' Affairs administered hospitals were unclear, in terms of the form of payments to the provinces. In some cases these agreements were inequitable, in that the Department had to pay the full cost of veterans' chronic care, without reimbursement from the province's medical insurance scheme when applicable. Your Committee recommends that the Department negotiate fair and equitable cost-sharing agreements with the provinces.

14. Your Committee also recommends that the Department expedite the transfer of its two remaining hospitals, together with the two veterans' homes still under its jurisdiction. Until such time as the transfer process is completed, the Department should implement the recommendations of the Auditor General relating to the need for improved administration and operation of hospitals.

"Sunset" Provisions for Departmental Programs

15. Your Committee noted that, in most cases, there will be a notable decline in the demand for services of the Department and its associated agencies by the turn of the century. For example, the Veterans' Land Administration (VLA), under whose provisions lending was terminated in 1977, has a clearly defined "sunset" around the year 2007.

16. Your Committee recommends that the Department and associated agencies take steps now to plan for the reduction and, in many cases, elimination of programs for which no appreciable clientele will exist within twenty years. Measures to reduce the scale of departmental staff and related expenditures should be particularly well advanced in the case of VLA and programs like it. More generally, your Committee recommends that the Department give serious consideration to its possible eventual attachment to the appropriate branches of federal departments, e.g., the Medical Services Branch of the Department of National Health and Welfare.

Summary of Recommendations

17. Your Committee recommends that:

(*a*) the Department improve its planning process and respond to the Auditor General's criticism in this regard;

(*b*) the Canadian Pension Commission take measures to expedite its pension settlements;

(*c*) the Government consider a change in the reporting procedures of the Canadian Pension Commission so that it becomes more responsive to Parliament·

(*d*) no duplication of head office or other staff positions be allowed to occur through the Department's relocation to Charlottetown, P.E.I.;

(*e*) the Department try to eliminate problems encountered by veterans in transferred hospitals;

(*f*) the Department negotiate equitable hospital cost-sharing agreements with the provinces;

(*g*) the Department expedite the transfer of its remaining two hospitals and two veterans' homes;

(*h*) the Department develop an action plan for the reduction or elimination of its programs to reflect the expected reduction in demand;

(*i*) the Canadian Pension Commission provide your Committee with a report by March 31, 1982 indicating the resource costs, and the systems and legislative changes which would be required to enable the Commission to process pension applications through all levels in a maximum of 180 days; and

(*j*) the Department and the Canadian Pension Commission report back to your Committee by March 31, 1982 and respond to the recommendations made in this report.

18. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 32, 33, 38 and 39 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

Chairman

TWELFTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, DECEMBER 17, 1981

REPORT TO THE HOUSE

Thursday, December 17, 1981

The Standing Committee on Public Accounts has the honour to present its

TWELFTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal year ended March 31, 1980 and, in particular, Paragraphs 1.51—1.53—Information for Parliament (Reform of the Estimates).

2. The co-operation of the Honourable Donald Johnston, President of the Treasury Board, and the other witnesses who appeared before your Committee is acknowledged and appreciated.

3. In February 1981, your Committee held four meetings and heard testimony from the President of the Treasury Board and his officials on the Government's proposals to reform the structure and contents of the Estimates over the next four years. The revised Estimates were presented in three parts: the Government Expenditure Plan (Part I) which provides an overview of total government expenditure plans; the Estimates (Part II) which form the basis upon which Parliament grants spending authority to the Government; and the Program Expenditure Plans (Part III) which provide further details of the departmental programs and activities. These proposals were a comprehensive response to the criticism of the present Estimates made by many Members and Committees of the House of Commons, by the Auditor General, and by the Royal Commission on Financial Management and Accountability.

4. After examining the Government Expenditure Plan (Part I) for 1981-82 and the illustrative Program Expenditure Plans (Part III) of two departments for 1980-81, your Committee concluded that there was insufficient exposure of the reforms of the Estimates to parliamentarians from the four meetings. Your Committee, therefore, recommended that the Comptroller General of Canada undertake a survey of individual and small groups of Members to evaluate, on a broader basis, whether the proposed reforms met the needs of parliamentarians and to report back the results of this evaluation to your Committee.

5. Senior representatives of the Offices of the Comptroller General and Auditor General interviewed 25 Members selected from a list of interested Members given to them by Caucus Chairmen and Public Accounts Committee Chairmen, past and present.

6. Your Committee reviewed the Members' survey and supports its conclusions which are as follows:

(*a*) the proposed three-part revisions to the Estimates provide a significant improvement in the information available to Parliament;

(*b*) the prototype Program Expenditure Plans for departments and agencies generally satisfy the parliamentary needs of Members with the structure and level of detail provided by these documents;

(*c*) further development of the Estimates must ensure the integrity and completeness of information; and

(*d*) further implementation of the Estimates revisions must continue across government and must have a high priority.

7. Your Committee commends the Comptroller General of Canada for the progress he has made to date in the Estimates Project and strongly supports the work he is doing in providing greater accountability by government to Parliament and in improving the expenditure process through Estimates reform.

8. Your Committee notes in particular the introduction of the reporting of actual program performance information in each of the departmental Program Expenditure Plans. Your Committee endorses this form of reporting since it will help Parliament to hold departments accountable for their actions.

9. Your Committee expressed the following concerns in the course of its meetings:

(*a*) the need to provide procedures to ensure that the integrity, accuracy and consistency of information in the Program Expenditure Plans of departments are preserved and maintained;

(*b*) the need to show clearly total government spending and to eliminate the practice of netting revenues against expenditures where appropriate;

(*c*) the need to commence the revision of the Supplementary Estimates so that they will conform with the form of the Main Estimates; and (*d*) the need to provide a guide to the Estimates to assist the users of these documents.

10. Your Committee notes that the Comptroller General of Canada is taking steps to address each of the above concerns in the areas within his mandate. Your Committee will be monitoring his progress in this regard.

11. With respect to the impact of the new revised Estimates on the parliamentary committee system, your Committee concludes that committee reforms will be necessary in order to assist members to specialize in the different subject areas. Special briefings for Members and staff will be required.

Recommendations

12. Your Committee recommends that:

(*a*) the President of the Treasury Board give a high priority to the full implementation of the Estimates Project, and that he ensure its completion by fiscal year 1985-86;

(*b*) the President of the Treasury Board provide your Committee with a progress report on the implementation of the Estimates Project before October 31 of each year until the Project has been fully implemented;

(*c*) the Comptroller General of Canada provide your Committee, before March 31, 1982, with a report on the action taken with respect to the netting of revenues against expenditures for fiscal year 1982-83; and

(*d*) the President of the Privy Council, in proposing parliamentary reform, give due consideration to the revised form of the Estimates as it relates to the parliamentary committee system and consult with the President of the Treasury Board and the Auditor General in this regard.

13. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 23, 24, 25, 26, 36, 37 and 41 of the First Session of the Thirty-Second Parliament*) is tabled.

Respectfully submitted,

Bill Clarke

Chairman

THIRTEENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, MARCH 22, 1982

REPORT TO THE HOUSE

Monday, March 22, 1982

The Standing Committee on Public Accounts has the honour to present its

THIRTEENTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the following Sections of the Public Accounts of Canada, Volume I, for the fiscal year ended March 31, 1981:

(*a*) Section 2—Audited Financial Statements of the Government of Canada; and

(*b*) Section 3—Observations by the Auditor General on the Financial Statements of the Government of Canada.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee heard testimony from the Auditor General and, on behalf of the Government, the Comptroller General concerning the two aforementioned Sections of Volume I of the 1981 Public Accounts. The greater part of the testimony related to the following three major issues, with the latter two issues arising from the two reservations in the Auditor General's Opinion:

(*a*) problems arising from existing accounting principles for governments;

(*b*) loans and subscriptions for international development assistance (soft loans); and

(*c*) unrecorded liabilities.

Accounting Principles

4. Your Committee wishes to point out that generally accepted accounting principles were developed by the accounting profession for use in the private sector. These are different from the accounting policies followed by the Government of Canada. It may well be that the principles developed for the private sector may not be suitable for the public sector.

5. The Auditor General stated that reporting objectives and a clear understanding of the use and purpose of the Government's summary financial statements must be established before accounting principles for governments are further developed.

6. The Comptroller General, speaking for the Government, stated that existing accounting principles must comply with legislation governing the preparation of the accounts and financial statements of the Government of Canada. Your Committee is therefore concerned that present legislation may require amendment in order to improve the financial reporting of the Government of Canada.

7. The Comptroller General indicated that major studies on the purpose and objectives of summary level reporting for the Government of Canada and on accounting principles were under way. For example, the Canadian Institute of Chartered Accountants (CICA) has formed the "Public Sector Accounting and Auditing Committee". Your Committee urges the Office of the Comptroller General to expedite its studies and encourages the Government to maintain close co-ordination with the CICA and others on these matters. Your Committee intends to monitor the progress of the Comptroller General's studies each year.

8. Your Committee is concerned that there is no clear legal definition of ministerial responsibilities for preparation of the Government's financial statements and for developing accounting policy. Your Committee noted the Auditor General's observation on the need for strong central direction in this regard within the Government of Canada. Your Committee therefore recommends that appropriate amendments to the Financial Administration Act be made to vest the responsibility and authority for the improvement of government accounting in the President of the Treasury Board.

Soft Loans

9. Your Committee notes the differing views of the Auditor General and the Government on the issue of the valuation of soft loans. The Auditor General stated his view that the Government should proceed immediately to write down and revalue loans and subscriptions for international development assistance, i.e. soft loans. The Government, on the other hand, stated that the purposes of the financial statements are best met by current accounting practice in respect of soft loans and that the consistency of the accounts is also ensured by current procedure.

10. Your Committee wishes to withhold any recommendations at this time pending the results of the aforementioned studies of the Comptroller General. However, your Committee wishes to stress the urgency of developing accounting principles for governments in order to resolve issues such as the valuation of soft loans.

Unrecorded Liabilities

11. Your Committee heard testimony from the Auditor General, in support of the opinion contained in his second reservation to the Government's financial statements, to the effect that there should be a more complete accounting and disclosure of liabilities, such as the indexed portion of pensions for retired public servants, employee termination benefits, and earned and unpaid vacation leave. The liability arising from the indexation of retirement annuities, i.e. the Supplemental Retirement Benefit Allowance (SRBA) Act, was estimated by the Auditor General to be $4.2 billion in 1981. The corresponding estimate for employee termination benefits was $1.2 billion. However, there was no estimate for vacation leave because the Auditor General found that the information required was not readily available.

12. Your Committee noted the views of the Government, as expressed in the testimony of the Comptroller General of Canada, that the unrecorded liabilities were not recorded for reasons of accounting consistency and because of certain impediments contained in the legislative framework, such as the SRBA Act.

13. Your Committee recognizes the existence and the magnitude of liabilities for termination benefits and vacation leave. Your Committee wishes to stress the need for the Comptroller General to consider these liabilities in the course of his studies on accounting principles for governments.

14. Your Committee accepts the opinion of the Auditor General that the liabilities arising from SRBA can be computed. The Comptroller General subsequently stated that the provisions of the SRBA Act preclude the recording of these liabilities. Your Committee recommends, therefore, that the Government consider the advisability of amending the SRBA Act in order to record the actuarial deficiency as a liability in the accounts of Canada.

Summary of Recommendations

15. Your Committee recommends that:

(*a*) the Comptroller General report back to your Committee on the progress of the studies regarding accounting principles for governments by October 31, 1982 and annually thereafter, until these principles have been established and are in use in the Government of Canada;

(*b*) the Government consider the advisability of amending the Financial Administration Act to vest the responsibility and authority for the improvement of government accounting in the President of the Treasury Board; and

(*c*) the Government consider the advisability of amending the SRBA Act in order to record the actuarial deficiency arising from this Act as a liability in the accounts of Canada.

16. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 38, 39 and 48 of the First Session of the Thirty-Second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

Chairman

FOURTEENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, MAY 26, 1982

REPORTS TO THE HOUSE

WEDNESDAY, MAY 26, 1982

The Standing Committee on Public Accounts has the honour to present its

FOURTEENTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal year ended March 31, 1981 and, in particular, Chapter 11, the Comprehensive Audit of the Corporation of the National Museums of Canada (the Corporation).

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee heard testimony on the major issues arising from the comprehensive audit of the Corporation, with emphasis on:

(*a*) organizational weaknesses; and

(*b*) management of collections.

Organizational Weaknesses

4. Your Committee is concerned that the Corporation's Board of Trustees, although given wide-ranging responsibilities under the National Museums Act, is composed of voluntary, part-time members, including the Chairman and Vice-Chairman (excluding two ex-officio appointments). The Secretary-General of the Corporation, who has the rank of deputy minister, is subject to by-laws established by the Board and exercises only those duties assigned to him. Furthermore, your Committee noted that each of the museum directors may direct the activities of his or her museum, under the Act, in a manner that is wholly independant of the Secretary-General. Your Committee concludes that there is a confusion of roles and duties among the senior officers of the Corporation and agrees with the finding of the Auditor General that this overlapping and imprecision in defining duties within the Corporation does not promote operational efficiency and accountability of managers for their respective tasks.

Management of Collections

5. Your Committee noted the Government's recent announcement of the creation of a Crown corporation to build a new National Gallery and Museum of Man over the next five years. Your Committee also noted that no provision was made either for the other two national museums or for the acquisition of proper storage facilities for all the museums. Your Committee is concerned about the hazardous housing and serious deterioration of the Corporation's collections. For example, your Committee considers it scandalous that the Invertebrate and History Collections of the National Museum of Man are housed in premises that have been condemned by the Dominion Fire Commissioner. Moreover, in the opinion of your Committee, the same scandalous conditions persist with respect to the housing of the National Aeronautical Collection at Rockcliffe air base.

6. The Corporation stated that its National Inventory program provided a proper inventory control to support collections management. However, your Committee noted that this program was designed to inventory items in museums all across Canada and that, as the Auditor General has pointed out, the scope of the program had never been defined or evaluated. Your Committee concludes that the Corporation's National Inventory program is deficient as a means of inventory control.

Recommendations

7. Your Committee recommends that:

(*a*) the Minister of Communications urgently consider the advisability of an amendment to the National Museums Act to establish a position of deputy head status which has clear authority, accountability and responsibility to the Board of Trustees and for the Museum Directors within the Corporation and that he do so in response to the findings of the Auditor General's comprehensive audit, notwithstanding any other related enquiries, such as that of the Federal Cultural Policy Review Committee (The Applebaum-Hébert Committee);

(*b*) the Corporation immediately ensure that collections are adequately and safely housed pending construction of the new National Gallery and Museum of Man and that provision be made for proper display and storage facilities for all the museums; and

(*c*) the Corporation immediately define and evaluate the scope of its National Inventory program.

8. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 46, 47 and 57 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

Chairman

FIFTEENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, May 26, 1982

REPORTS TO THE HOUSE

WEDNESDAY, MAY 26, 1982

The Standing Committee on Public Accounts has the honour to present its

FIFTEENTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Financial Statements of Eldorado Nuclear Limited and Eldorado Aviation Limited (Eldorado) contained in Volume III of the Public Accounts of Canada for the fiscal year ended March 31, 1981.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee considered a number of issues related to Eldorado's financial statements, with emphasis on:

(*a*) the role of Eldorado as an instrument of public policy;

(*b*) the decision to close the Beaverlodge uranium mine at Uranium City, Saskatchewan;

(*c*) Eldorado's capital expenditure approval process; and

(*d*) the need to conduct a comprehensive audit of the company.

The Public Policy Role

4. Eldorado stated that it is not a direct instrument of public policy and emphasized its commercial orientation. However, your Committee noted the following instances of Government involvement in Eldorado's affairs which contradict this statement and suggest a public policy role for the company:

(*a*) at the request of the Government, Eldorado agreed to develop a uranium refinery at Blind River, Ontario rather than at the company preferred site at Port Hope, Ontario. Your Committee understands that the cost to the company of this relocation of refinery expansion is considerable;

(*b*) in March of 1981, Eldorado received the Government's 14.5 million pound uranium stockpile in return for the issuance to the Government of common and preferred shares in the amount of $300 million. The infusion of equity capital occasioned by this stockpile transfer enabled Eldorado to withstand losses from the closure of the Beaverlodge mine. In addition, Eldorado has recently used part of this stockpile to acquire Gulf Minerals Canada Ltd., and thereby expand its mining holdings in Northern Saskatchewan; and

(*c*) from time to time, the Government has offered Eldorado favourable financing in the form of low-interest, long-term loans.

5. Your Committee concludes that Eldorado is subject to public policy constraints and that the Government should clearly and publicly define Eldorado's public policy objectives. If the Government does not wish to set policy objectives for Eldorado, it should renounce its involvement in the company's affairs and formally establish Eldorado's status as a truly commercial Crown corporation.

6. Your Committee wishes to emphasize, in the strongest possible terms, its concern that the corporate form of organization, as now used in Crown corporations, makes it possible for government activities involving the spending of substantial amounts of public funds to be carried on without adequate accountability to Parliament and Government. Your Committee has expressed this concern in previous Reports to the House. Your Committee recommends that the Government introduce Crown corporations legislation which would:

(*a*) enable the Government to establish and set objectives for government-controlled corporations;

(*b*) improve the way Government and Parliament monitor, control and receive an accounting from Crown corporations for their use of public funds; and

(*c*) establish a new ministry to oversee all Crown corporations on behalf of the Government and report to Parliament in this regard.

The Decision to Close Beaverlodge

7. Evidence presented to your Committee by Eldorado clearly demonstrated that, as early as 1979, the company was aware of a trend towards higher operating costs, falling uranium ore prices and declining ore quality in the Beaverlodge operation. By 1980, there was a substantial loss on these operations. Yet Eldorado's expansion program at the Beaver-

lodge mine site and on support activities such as the purchase of a new aircraft appeared to continue up until the very day that the decision to close the mine was announced (in December, 1981). Your Committee concludes, therefore, that Eldorado did not properly co-ordinate its decision to close the Beaverlodge mine with a winding-down of its expansion program at the mine.

8. Your Committee is concerned that the closure of the Beaverlodge mine will not only cause many Eldorado employees to lose their livelihood but will also result in the eventual destruction of the economic viability of the town of Uranium City and of the surrounding communities of Northern Saskatchewan that depend on Uranium City's resources.

9. Your Committee is pleased to note that Eldorado has awarded generous termination benefits to its Beaverlodge employees. Your Committee recommends that Eldorado continue its vigorous involvement in the Task Force established to seek a future for Uranium City. Eldorado should endeavor to provide for the settlement of its obligations arising from this mine closure, paying particular attention to the Task Force recommendations.

Capital Expenditure Approval Process

10. Your Committee has reviewed Eldorado's capital expenditure approval process in terms of both the general information in the testimony and the specific responses to your Committee's detailed questions which were supplied in writing by the company. Your Committee was pleased to note the existence of a number of specific controls in place in the company as regards the planning and execution of capital expenditures. However, your Committee was concerned that the company had no formal strategic planning process but rather appeared to rely on a three-year operational plan. Your Committee notes that strategic and operational planning are fundamentally different. Strategic planning establishes and reviews the fundamental goals of the organization and is a process having to do with the formulation of long-range, strategic, policy-type plans that determine the character or direction of the organization; it includes the assessment of costs and benefits of alternatives and, in the public sector, responsiveness to government policy. Operational planning, on the other hand, is derived from strategic planning and may be defined as the process of assuring that specific tasks are carried out effectively and efficiently; it specifies the results anticipated, the goals to be achieved and the associated costs.

11. While not questioning the volatility of the uranium market and the long lead times in project planning to which Eldorado is subject, your Committee noted that greater attention to strategic planning with respect to the Beaverlodge mine operations might have alerted the company to the eventual closure of this mine and resulted in considerable savings in this regard. Your Committee therefore recommends that Eldorado establish a formal strategic planning capability.

Comprehensive Audit

12. Your Committee concluded in a previous Report that Eldorado's refusal to involve itself in a comprehensive audit was unacceptable and could not be justified for the reasons stated by the company. Your Committee also regrets the fact that the Auditor General has been replaced as Eldorado's auditor by a private firm. Your Committee concludes that a comprehensive audit would be of benefit to Eldorado. In fact, your Committee notes that such an audit might have alerted the company sooner to the need to close the Beaverlodge mine and reduced the costs incurred in this regard.

Summary of Recommendations

13. Your Committee recommends that:

(*a*) the Government immediately establish public policy guidelines for Eldorado and see that the company operates with due regard for economy, efficiency and effectiveness in the expenditure of public funds, or, that the Government renounce its involvement in Eldorado's affairs and formally establish the company's status as a truly commercial Crown corporation;

(*b*) the Government consider the advisability of introducing Crown corporations legislation which would enable it to establish and set objectives for government-controlled corporations, to improve the way Government and Parliament monitor, control and receive an accounting from Crown corporations for their use of public funds, and to establish a new ministry to oversee all Crown corporations on behalf of the Government and report to Parliament in this regard;

(*c*) Eldorado continue its vigorous involvement in the Uranium City Task Force and endeavor to provide for the settlement of its obligations arising from the closure of the Beaverlodge mine;

(*d*) Eldorado establish a formal strategic planning capability;

(*e*) Eldorado request a comprehensive audit of its operations; and

(*f*) Eldorado report back to your Committee by December 31, 1982 and respond to the recommendations made in this Report.

14. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 42, 43 and 57 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

Chairman

Appendix C

SIXTEENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, June 23, 1982

REPORT TO THE HOUSE

Wednesday, June 23, 1982

The Standing Committee on Public Accounts has the honour to present its

SIXTEENTH REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1981 and, in particular, has commenced consideration of Chapter 13—the Comprehensive Audit of the Post Office Department.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. As a result of the Canada Post Corporation Act, the Post Office Department became the Canada Post Corporation (the Corporation) in October, 1981. It was, therefore, the Corporation that appeared before your Committee at hearings which were designed so that the Committee could better understand the Corporation's plans to improve its operations. Your Committee plans to complete its review of the comprehensive audit at a later date.

4. Your Committee heard testimony regarding the Corporation's plans to improve its operations and considered the following major issues arising from this testimony:

(*a*) quality of service;

(*b*) audit responsibilities of the Auditor General;

(*c*) labour relations; and

(*d*) financial self-sufficiency.

Quality of Service

5. Your Committee has received a listing of 18 performance indicators used by management of the Corporation to evaluate quality of service and other areas of postal operations such as industrial relations, management systems, and communications. The Corporation declined to release further details of these indicators because it finds no consensus as yet among its customers about their validity and because they change frequently and would subject the Corporation to evaluation against a set of moving targets. Your Committee expects the Corporation to report more fully on the 18 performance indicators at a later date.

Audit Responsibilities of the Auditor General

6. Your Committee noted that the Government has appointed the Auditor General as joint auditor of the Corporation for an initial term of two years. Your Committee is opposed to the practice of joint auditing because it finds this to be wasteful, costly, and ineffective. Although it believes that the Auditor General ought to be the sole auditor of the Corporation, your Committee recognizes the provision in the Canada Post Corporation Act for joint auditors. Your Committee is also concerned about a recent confirmation of the Government's intention not to renew the Auditor General's mandate as joint auditor of the Corporation, as expressed in correspondence between the Prime Minister and the Auditor General. In view of the Auditor General's considerable knowledge of postal operations and his uninterrupted term as auditor of the Post Office, your Committee concludes that the Auditor General ought to be retained as a joint auditor at least until such time as the Corporation achieves financial self-sufficiency.

7. Your Committee observed that, in the absence of the appropriate Crown corporations legislation, the Auditor General's audit responsibilities are now limited to an attest audit, which he shares with the other joint auditor. Thus, the Auditor General, having undertaken his comprehensive audit of the Department, has no mandate to follow up on the findings of this audit or to conduct further comprehensive audits of the new Corporation. Your Committee feels that the Auditor General should be authorized to follow up on his current comprehensive audit report and to conduct future comprehensive audits of the Corporation.

8. Your Committee noted an apparent conflict between the Auditor General's responsibilities to report to Parliament under the Auditor General Act and his responsibility to report to the Corporation and the Minister as a joint auditor under the Canada Post Corporation Act. The circumstances under which the Auditor General reports first to Parliament or to the Corporation and the Minister are unclear.

Labour Relations

9. Your Committee was pleased to note the Corporation's efforts to improve labour relations in areas such as payroll management and handling of grievances. Your Committee noted that this is one of the areas in which the Corporation has established performance indicators. Your Committee encourages these efforts on the part of the Corporation and requests that the Corporation provide the Committee with further details of these measures so that it can keep fully informed of progress in this area.

Financial Self-Sufficiency

10. The Corporation stated that it has developed plans to achieve financial self-sufficiency and that these plans include a timetable for the attainment of specific objectives. In order to evaluate the Corporation's progress in this regard, your Committee requests that the Corporation provide it with this timetable.

Recommendations

11. Your Committee recommends that:

(*a*) the Government retain the Auditor General as a joint auditor of the Corporation at least until such time as the Corporation achieves financial self-sufficiency;

(*b*) the Government consider the advisability of amending or enacting relevant legislation in order to clarify the reporting responsibilities of the Auditor General;

(*c*) the Minister authorize the Auditor General to follow up on his current comprehensive audit report of the Post Office Department and to conduct future comprehensive audits of the Corporation; and

(*d*) the Corporation report back to your Committee by December 31, 1982 on the progress relative to the 18 performance indicators, labour relations, and financial self-sufficiency.

12. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 44, 45 and 59 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE

Chairman

SEVENTEENTH REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, July 30, 1982

REPORT TO THE HOUSE

Friday, July 30, 1982

The Standing Committee on Public Accounts has the honour to present its

SEVENTEENTH REPORT

(The Miscellaneous Report)

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal year ended March 31, 1981 and, in particular, the following three items:

A—Chapter 3—Payroll Costs Management;

B—Chapter 8—Comprehensive Audit of the Department of Fisheries and Oceans; and

C—Paragraph 15.6—Department of Transport—Double Benefits to Canadian National resulting from failure to consider all significant financial implications of new legislation.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

A—Payroll Costs Management

3. Your Committee heard testimony from the central agencies involved in payroll costs management, viz. the Treasury Board Secretariat (the Secretariat) and the Public Service Commission (the Commission), and considered a number of issues, with emphasis on:

(*a*) the responsibilities of the Secretariat and the Commission to enforce their policies;

(*b*) the division of responsibilities between the Secretariat and the Commission; and

(*c*) the progress made by the Secretariat and the Commission in the areas of human resources planning, training and information systems in light of the Auditor General's comments.

4. The Secretariat stated that it wished to exercise less control over the monitoring, follow-up, and evaluation of its policies regarding the daily management of departments. Your Committee agrees with the Auditor General's statement that the Treasury Board, through its Secretariat, has a responsibility to monitor and evaluate its own policies. Your Committee feels that the Secretariat ought to exercise whatever measure of control is necessary to ensure that departments comply with its policies.

5. Your Committee noted that the Secretariat and the Commission have reached an understanding regarding their mutual division of roles and responsibilities in the area of personnel management. Your Committee has received an outline of this understanding in point form but finds many areas where responsibilities overlap or the division of responsibilities is unclear. Your Committee recommends that the agencies resolve these problems before they implement this division of responsibilities.

6. Your Committee was informed that staff training and development is subject to the Secretariat's policy guidelines and has been delegated to the Commission, for management and special area training, and to the departments, for line training functions. Once again, your Committee notes that the division of responsibilities between the two central agencies is unclear. Your Committee shares the Auditor General's concern about the inadequacy of departmental processes for identifying training needs and evaluating training programs. For example, departments have used training courses as rewards, rather than in response to systematically identified training needs through personnel appraisal systems. Your Committee feels that this practice must be eliminated. Your Committee concludes that the Secretariat has the responsibility to review its training policies and practices, together with those of departments, in order to ensure that needed improvements are made.

7. The Secretariat and the Commission have admitted to duplication of human resources information systems. Your Committee shares the Auditor General's concern that up to 60 per cent of the data required for the public service is exactly the same as that required for the central agencies. Your Committee recommends that the responsible parties eliminate this wasteful duplication.

B—Comprehensive Audit of the Department of Fisheries and Oceans (the Department)

8. Your Committee heard testimony on the major issues arising from the comprehensive audit of the Department, with emphasis on:

(*a*) overcapitalization in the fishing industry and related fishing vessel subsidy programs of the Department (and of other Government departments);

(*b*) cost-effectiveness of expenditures per species of fish;

(*c*) weaknesses in the Department's support services; and

(*d*) efficiency and effectiveness of various programs of the Department, including the fish hatcheries program.

9. The Auditor General reported that excess fishing capacity is a serious problem for the Canadian fishing industry. Your Committee was therefore concerned by his finding that the Department's Fishing Vessel Assistance Program aggravated the problem of excess capacity in the fishing fleet. There were related inadequacies in the Department's fishing vessel quota system. Your Committee has also been informed of other Government programs, such as those administered by the Department of Industry, Trade and Commerce, that subsidize the construction of unneeded vessels. Your Committee finds that these subsidies do not serve one of the Department's major objectives, set forth in its Estimates before Parliament, viz. the rational and economic utilization of Canada's fishery resources. Your Committee questions the usefulness of fishing vessel subsidies and recommends that these programs be reviewed.

10. The Auditor General reported on the wide variations in the Department's Maritime region expenditures per fish species—from 3 cents per dollar of landed value of scallops to $12.60 per dollar of landed value of salmon. In spite of the Department's explanations, your Committee shares the Auditor General's concern that the Department has not carried out an analysis to determine what relative level of expenditure would be appropriate to devote to each species. Your Committee therefore recommends that the Department immediately undertake such an analysis to ensure an economic and cost-effective use of public monies in Canada's fishery.

11. The Auditor General found weaknesses in the Department's support services in the areas of Electronic Data Processing (EDP) management, payroll costs management, internal audit, and facilities and materiel management. The Department acknowledged these weaknesses and undertook to implement corrective measures within a specific time frame. Your Committee requests a report by December 31, 1982 on the Department's progress in improving support services.

12. Your Committee reviewed the Auditor General's findings on the economy, efficiency and effectiveness of various Department programs, including:

(*a*) Fish hatcheries—Your Committee feels that the Department has serious problems of inefficiency and recommends that it implement corrective measures as soon as possible;

(*b*) Allocation of fishing rights—Your Committee shares the Auditor General's concern that the present allocation between inshore and offshore sectors results in a situation where "... both sectors are prone to take too much fish too quickly, with resultant poor quality fish, huge inventories surpassing demand and depressing price, and idle periods after quotas are caught." Your Committee recommends that the Department re-evaluate and redesign its allocation processes in light of the Auditor General's findings; and

(*c*) Quality of socio-economic information in use in the Department—Your Committee feels that the information collected at the present time, such as cost and earnings studies on the fishing fleet and data on fishermen's incomes, needs improvement and should be used more extensively in making allocation decisions. Your Committee therefore recommends that the Department improve the quality of its socio-economic information.

Your Committee requests a progress report on the above items by December 31, 1982.

C—Department of Transport—Double Benefits to the Canadian National Railway System (CN)

13. Your Committee heard testimony from the Departments of Transport and Finance, the Canadian Transport Commission (CTC), the Auditor General and CN itself on the question of double benefits to CN. A number of issues were considered, with emphasis on:

(*a*) the failure of the Department of Transport to consider all significant financial implications of the CN Capital Revision Act of 1978; and

(*b*) the question of whether or not there were double benefits and, if so, what should be done about it.

14. The passage of the CN Capital Revision Act in 1978 changed CN's capital structure and its financial relationship with the Government. Two aspects of this financial relationship were CTC subsidies for the operation of uneconomic branch lines and passenger services and the Department of Transport payment of CN's deficits prior to 1975. During the period 1971 to 1975, CN became eligible for these CTC subsidies and also incurred deficits, resulting in compensation from Transport. The practice was to deduct the amount of CTC subsidies in any given year before calculating the Department of Transport deficit compensation. However, approximately $150 million of CTC subsidy payments were delayed and remained outstanding when the recapitalization legislation was being drafted in 1977. The Auditor General found, and the Department of Transport stated before your Committee, that the officials of Transport had not considered the unpaid CTC subsidies when putting the recapitalization legislation before their Minister and Cabinet. This resulted in double benefits to CN when CTC paid $53 million of these subsidies over the 1978 to 1980 period. In addition, Transport officials did not consult with CTC at any time. Your Committee finds these omissions on the part of the officials of Transport highly regrettable and recommends that the Treasury Board take measures to ensure that the financial implications

of new legislation are properly understood so that situations like this do not recur. In particular, your Committee recommends that the Privy Council Office ensure that all departments adhere to its Guidance Manual for the Preparation and Handling of Cabinet Papers.

15. Having established that CN received double benefits, your Committee feels that the Government should comply with the recommendation of the Auditor General and resolve this matter, in light of CN's continuing claim for pre-1978 CTC subsidies, and that the Government report back to your Committee by December 31, 1982.

Recommendations

16. With respect to Payroll Costs Management, your Committee recommends that:

(*a*) the Treasury Board Secretariat exercise whatever measure of control is necessary to ensure that departments comply with its policies;

(*b*) the Treasury Board Secretariat and the Public Service Commission resolve problems of a lack of clarity and overlapping responsibilities before they implement the division of responsibilities that they outlined to your Committee;

(*c*) the Treasury Board Secretariat and the Public Service Commission review their training policies and practices, together with those of departments, in order to ensure that the improvements recommended by the Auditor General are made; and

(*d*) the central agencies and departments responsible for the duplication of human resources information systems eliminate such duplication.

17. With respect to the comprehensive audit of the Department of Fisheries and Oceans, your Committee recommends that:

(*a*) the Government review its fishing vessel subsidy programs in order to assess their need and effectiveness;

(*b*) the Department immediately undertake an analysis of its relative levels of expenditure per species of fish in order to better justify these expenditures and ensure an economic and cost-effective use of public monies in Canada's fishery;

(*c*) the Department improve its support services;

(*d*) the Department implement corrective measures to improve the efficiency of its fish hatcheries;

(*e*) the Department re-evaluate and redesign its allocation processes in light of the Auditor General's findings;

(*f*) the Department take measures to improve the quality of its socio-economic information and to make better use of this information in making allocation decisions; and

(*g*) the Department report back to your Committee by December 31, 1982 on the above recommendations.

18. With respect to the Department of Transport and payment of double benefits to CN, your Committee recommends that:

(*a*) the Department of Transport take measures to ensure that double benefits not occur;

(*b*) the Treasury Board take measures to ensure that the financial implications of new legislation are properly understood by the responsible officials, their Minister and Cabinet;

(*c*) the Privy Council Office ensure that all departments adhere to its Guidance Manual for the Preparation and Handling of Cabinet Papers; and

(*d*) the Government resolve the question of double benefits to CN, and report back to your Committee by December 31, 1982.

19. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 51, 55, 56, and 62 of the First Session of the Thirty-second Parliament*) is tabled.

Respectfully submitted,

BILL CLARKE,

Chairman.

APPENDIX D

OPINION AND OBSERVATIONS BY THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

(Sections 2 and 3 of the Public Accounts, 1980-81)

SECTION 2

1981-82
PUBLIC ACCOUNTS

Audited Financial Statements of the Government of Canada

CONTENTS

Preface to the audited financial statements of the Government of Canada
Statement of transactions
Statement of revenue and expenditure
Statement of assets and liabilities
Statement of use of appropriations
Notes to the financial statements of the Government of Canada
Opinion of the Auditor General on the financial statements of the Government of Canada

PREFACE TO THE AUDITED FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

The accounting policies adopted by the Government and summarized in Note 1 to the financial statements are the result of continuing developments over the years and form the basis for the preparation of the financial statements, designed primarily to provide an accounting of the financial resources appropriated by Parliament. The fundamental requirement to report compliance with legislative authority results in the presentation of financial information in a manner significantly different from that found in the private sector. The accrual basis of accounting used in the private sector best reflects the costs incurred to earn revenues; the policies followed by the Government, under which revenue is on the cash basis and expenditure (use of appropriations) is generally on the accrual basis, best accommodate reporting to Parliament.

The four financial statements in this section, together with the accompanying notes, are presented for audit in compliance with Section 55 of the Financial Administration Act. These statements form the basis of the Government's accounting for the management of the financial authorities granted by Parliament. Other sections in this volume, together with Volumes II and III of the Public Accounts, are designed to provide information supporting the financial statements.

The first financial statement is the Statement of Transactions, which summarizes all transactions of the Government, as defined in Note 1 (ii), and shows how the financial requirements were met, and the effect of all transactions on the cash balance. The financial transactions are classified into four main categories: budgetary, non-budgetary, foreign exchange and unmatured debt.

The first category, budgetary transactions, consists of all the transactions which enter into the calculation of the annual deficit or surplus of the Government, that is the receipts from tax and non-tax revenue together with the expenditures authorized by Parliament. Revenue is recognized only when received and does not include amounts due but not collected. Budgetary expenditure, however, is recorded generally on the accrual basis. Expenditure includes charges for work performed, goods received, services rendered, transfer payments made, amortization of the actuarial deficiencies of the three main superannuation accounts, a provision for estimated losses on realization of recorded assets and accruals for interest on unmatured debt. Fixed assets, which include land, buildings, works and equipment, are not capitalized but are charged to budgetary expenditure at the time of acquisition or construction. Budgetary expenditure does not include amounts payable or accrued at the year end, for items to be paid from statutory appropriations, employee termination benefits, unpaid annual vacation entitlements and the indexing of pensions.

The second category, non-budgetary transactions, consists of loans, investments and advances made by the Government, the Government's liability to outside parties from its role of administrator of certain public moneys received or collected for special purposes, and other liabilities recorded as a result of the budgetary accruals mentioned above. These transactions account for the change in the financial claims due to or financial obligations due by the Government, in accordance with the accounting policies referred to in Note 1 to the financial statements.

The third category, foreign exchange transactions, reflects transactions with the Exchange Fund Account, whose principal objective is to aid in the control and protection of the external value of the Canadian dollar, together with an accounting of the net position of the Government with respect to the International Monetary Fund. Foreign exchange transactions also include unmatured debt payable in foreign currencies.

The fourth category, unmatured debt transactions, represents the extent to which financial requirements have been met through the increase in unmatured debt, that is the net changes in the amounts owing for such debt instruments as marketable bonds, Canada savings bonds and Treasury bills. Unmatured debt transactions exclude unmatured debt payable in foreign currencies.

The second statement is the Statement of Revenue and Expenditure. This statement gives a more detailed accounting of the budgetary transactions summarized in the Statement of Transactions. The annual deficit or surplus represents the difference between the expenditures and the revenues of the year in accordance with the accounting policies previously summarized.

The third statement is the Statement of Assets and Liabilities. Since this statement is based on the Government's accounting policies, it does not parallel the conventional balance sheet presented in the private sector. More particularly, fixed assets having been accounted for as expenditures, are recorded at the nominal value of $1, and revenues not yet received, such as uncollected taxes, are not recorded as assets. The effect of inflation on the economic value of the Government's reported assets and liabilities has not been reflected. It is generally recognized that inflation tends to reduce the value of financial assets and liabilities while at the same time increasing the recorded value of fixed assets. Thus it should be noted that the difference between the net recorded assets and liabilities is simply the aggregate of annual budgetary deficits and surpluses determined in accordance with the accounting policies of the Government; in no way does this difference reflect the Government's net worth.

The fourth statement is the Statement of Use of Appropriations, which summarizes, by department, the use, during the year, of parliamentary appropriations for budgetary expenditure and loans, investments and advances.

These four financial statements, when read in conjunction with the notes thereto, present fairly, in the opinion of the Government, the revenue, expenditure, assets and liabilities of the Government of Canada. Fair presentation is achieved through the consistent application of the significant accounting policies, which are summarized in Note 1 to the financial statements.

GOVERNMENT OF CANADA

Statement of Transactions for the Year Ended March 31, 1982

(in millions of dollars)

	1982	1981
BUDGETARY TRANSACTIONS		
Revenue	54,552	46,507
Expenditure	– 68,158	– 59,175
Deficit	– 13,606	– 12,668
NON-BUDGETARY TRANSACTIONS		
Loans, investments and advances	– 1,239	– 493
Specified purpose accounts	4,345	2,781
Other transactions	2,169	263
Net source	5,275	2,551
Financial requirements (excluding foreign exchange)	*– 8,331*	*– 10,117*
FOREIGN EXCHANGE TRANSACTIONS[2]	– 347	1,157
Total financial requirements[1]	*– 8,678*	*– 8,960*
UNMATURED DEBT TRANSACTIONS[2]	9,367	11,153
Change in cash	*689*	*2,193*
CASH BALANCE AT END OF YEAR	*6,620*	*5,931*

The accompanying notes are an integral part of this statement.
Details can be found in other sections of this volume.

[1] Cash requirements (–).

[2] Unmatured debt payable in foreign currencies has been included as part of foreign exchange transactions.

September 15, 1982.

I. A. STEWART,
Deputy Minister of Finance.

DAVID KIRKWOOD,
Deputy Receiver General for Canada.

GOVERNMENT OF CANADA

Statement of Revenue and Expenditure for the Year Ended March 31, 1982

(in millions of dollars)

	1982			1981		
	Gross revenue	Revenue credited to appropriations and postal receipts used to defray postal expenditures	Net revenue	Gross revenue	Revenue credited to appropriations and postal receipts used to defray postal expenditures	Net revenue
REVENUE						
TAX REVENUE						
Income tax—						
Personal	24,046		24,046	19,837		19,837
Corporation	8,118		8,118	8,106		8,106
Non-resident	1,018		1,018	867		867
Petroleum and gas revenue tax	864		864	27		27
	34,046		*34,046*	*28,837*		*28,837*
Excise taxes and duties—						
Sales tax	6,185		6,185	5,429		5,429
Customs import duties	3,439		3,439	3,188		3,188
Excise duties	1,175		1,175	1,042		1,042
Natural gas and gas liquids tax	998		998	187		187
Oil export charges	519		519	842		842
Special petroleum compensation charge	473		473			
Special excise tax—Gasoline	436		436	453		453
Other	564		564	573		573
	13,789		*13,789*	*11,714*		*11,714*
Other tax revenue	4,100	3,980	120	1,658	1,559	99
TOTAL TAX REVENUE	***51,935***	***3,980***	***47,955***	***42,209***	***1,559***	***40,650***
NON-TAX REVENUE						
Return on investments—						
Bank of Canada	1,853		1,853	1,459		1,459
Canada Mortgage and Housing Corporation	873		873	839		839
Exchange Fund Account	763		763	620		620
Interest on bank deposits	701		701	318		318
Farm Credit Corporation	285		285	243		243
Other return on investments	673	53	620	695	44	651
	5,148	*53*	*5,095*	*4,174*	*44*	*4,130*
Postal revenue	631	147	484(2)	1,369	260	1,109
Refunds of previous years' expenditure	153		153	111		111
Services and service fees	1,497	1,374	123	1,433	1,315	118
Privileges, licences and permits	246	126	120	223	104	119
Bullion and coinage	70		70	60		60
Proceeds from sales	295	228	67	259	202	57
Premium and discount on exchange	(1)	(1)	(1)	(1)	(1)	
Other non-tax revenue	1,706	1,221	485	983	830	153
	4,598	*3,096*	*1,502*	*4,438*	*2,711*	*1,727*
TOTAL NON-TAX REVENUE	***9,746***	***3,149***	***6,597***	***8,612***	***2,755***	***5,857***
TOTAL REVENUE	**61,681**	**7,129**	**54,552**	**50,821**	**4,314**	**46,507**

	1982			1981		
	Gross expenditure	Revenue credited to appropriations and postal receipts used to defray postal expenditures	Net expenditure	Gross expenditure	Revenue credited to appropriations and postal receipts used to defray postal expenditures	Net expenditure
EXPENDITURE						
Agriculture	1,135	10	1,125	890	8	882
Communications	1,229	95	1,134	1,249(3)	79	1,170(3)
Consumer and Corporate Affairs	95		95	77		77
Economic Development	13		13	11		11
Employment and Immigration	2,877	668	2,209	4,152	566	3,586
Energy, Mines and Resources	5,195	3,797	1,398	5,423(3)	1,397	4,026(3)
Environment	649	22	627	555	18	537
External Affairs	1,298	13	1,285	1,096	12	1,084
Finance	19,830	6	19,824	14,772	5	14,767
Fisheries and Oceans	443	2	441	368		368
Governor General	4		4	3		3
Indian Affairs and Northern Development	1,507		1,507	1,417(3)		1,417(3)
Industry, Trade and Commerce	990		990	655		655
Justice	200		200	175		175
Labour	82	11	71	66	10	56
National Defence	6,331	303	6,028	5,312	235	5,077
National Health and Welfare	17,848	30	17,818	15,802	20	15,782
National Revenue	868	52	816	721	44	677
Parliament	151		151	130		130
Post Office	1,303	147	1,156(2)	1,857	260	1,597
Privy Council	64		64	81		81
Public Works	2,512	324	2,188	2,118	266	1,852
Regional Economic Expansion	745		745	722		722
Science and Technology	496	10	486	401	9	392
Secretary of State	2,275	11	2,264	2,184	10	2,174
Social Development	3		3	2		2
Solicitor General	1,503	319	1,184	1,269	214	1,055
Supply and Services	1,084	690	394	941	620	321
Transport	2,883	603	2,280	3,052	529	2,523
Treasury Board	334	16	318	184	12	172
Veterans Affairs	1,140		1,140	1,006		1,006
TOTAL DEPARTMENTAL EXPENDITURE	**75,087**	**7,129**	**67,958**	**66,691**	**4,314**	**62,377**
PROVISION FOR VALUATION			*200*			*– 3,202*
TOTAL EXPENDITURE			**68,158**			**59,175**
NET REVENUE			**54,552**			**46,507**
DEFICIT			**13,606**			**12,668**

The accompanying notes are an integral part of this statement.

Details of revenue and expenditure can be found in Sections 5 and 6 of this volume and in Volume II.

(1) Less than $500,000.

(2) Further details can be found in Note 6.

(3) Includes loans deleted: Communications, $198 million; Energy, Mines and Resources, $690 million; and, Indian Affairs and Northern Development, $148 million.

September 15, 1982.

I. A. STEWART,
Deputy Minister of Finance.

DAVID KIRKWOOD,
Deputy Receiver General for Canada.

GOVERNMENT OF CANADA

Statement of Assets and Liabilities as at March 31, 1982

(in millions of dollars)

	1982	1981	Net increase or decrease (-)
ASSETS			
LOANS, INVESTMENTS AND ADVANCES, **Table 7.1, Section 7—**			
Crown corporations and agencies—			
Lending institutions—			
Canada Deposit Insurance Corporation	200		200
Canada Mortgage and Housing Corporation	10,388	10,189	199
Export Development Corporation	1,547	1,550	- 3
Farm Credit Corporation	3,727	3,379	348
Federal Business Development Bank	1,031	1,156	- 125
	16,893	*16,274*	*619*
All other Crown corporations and agencies—			
Air Canada	608	622	- 14
Atomic Energy of Canada Limited	873	881	- 8
Canadian National Railways	2,753	2,753	
Petro-Canada	1,573	1,444	129
Other	1,854	1,495	359
	7,661	*7,195*	*466*
Total Crown corporations and agencies	*24,554*	*23,469*	*1,085*
Other loans, investments and advances—			
Provincial and territorial governments	1,208	1,236	- 28
National governments including developing countries, Table 7.7, Section 7	3,198	2,942	256
International organizations	2,585	2,255	330
Less: notes payable	980	816	164
	1,605	*1,439*	*166*
Veterans' Land Act Fund advances less allowance for conditional benefits	283	312	- 29
Government controlled corporations	441	441	
Private sector enterprises	167	180	- 13
Miscellaneous	267	265	2
	7,169	*6,815*	*354*
	31,723	***30,284***	***1,439***
Less: allowance for valuation	2,500	2,300	200
TOTAL LOANS, INVESTMENTS AND ADVANCES	***29,223***	***27,984***	***1,239***
FOREIGN EXCHANGE ACCOUNTS, **Table 10.1, Section 10—**			
Exchange Fund Account—Advances, Table 10.2, Section 10	2,176	1,939	237
International Monetary Fund—Subscriptions	2,780	2,961	- 181
	4,956	*4,900*	*56*
Less: International Monetary Fund—Notes payable	2,327	2,329	- 2
Special Drawing Rights	1,064	1,134	- 70
	3,391	*3,463*	*- 72*
TOTAL FOREIGN EXCHANGE ACCOUNTS	***1,565***	***1,437***	***128***
CASH IN TRANSIT, **Table 12.1, Section 12**	***1,830***	***1,846***	***- 16***
CASH, **Table 12.2, Section 12**	***6,620***	***5,931***	***689***
FIXED ASSETS (valued at one dollar), Section 12			
NET RECORDED ASSETS	39,238	37,198	2,040
ACCUMULATED DEFICIT, Table 12.5, Section 12	***94,869***	***81,263***	***13,606***
TOTAL	**134,107**	**118,461**	**15,646**

LIABILITIES	1982	1981	Net increase or decrease (-)
SPECIFIED PURPOSE ACCOUNTS, Table 8.1, Section 8—			
Canada Pension Plan Account	21,547	18,947	2,600
Less: provincial government securities held by the Canada Pension Plan Investment Fund	20,368	17,938	2,430
	1,179	*1,009*	*170*
Superannuation accounts	27,528	23,966	3,562
Less: unamortized portion of actuarial deficiencies	2,185	1,637	548
	25,343	*22,329*	*3,014*
Unemployment Insurance Account	- 318	- 228	- 90
Less: interest bearing loans	35	110	- 75
	- 353	*- 338*	*- 15*
Government Annuities Account	1,172	1,193	- 21
Canadian Ownership Account			
Special oil and gas charges	786		786
Less: investments	711		711
	75		*75*
Deposit and trust accounts	1,981	852	1,129
Provincial tax collection agreements account	1,415	1,471	- 56
Other	378	329	49
	5,021	*3,845*	*1,176*
TOTAL SPECIFIED PURPOSE ACCOUNTS	***31,190***	***26,845***	***4,345***
OTHER LIABILITIES, Table 9.1, Section 9—			
Interest and matured debt	6,721	4,873	1,848
Less: unamortized discount on Treasury bills	626	711	- 85
	6,095	*4,162*	*1,933*
Accounts payable	2,442	2,264	178
Outstanding cheques, warrants and postal money orders	2,322	2,293	29
Miscellaneous	112	99	13
TOTAL OTHER LIABILITIES	***10,971***	***8,818***	***2,153***
UNMATURED DEBT, Tables 11.1 and 11.9, Section 11—			
Payable in Canadian currency—			
Marketable bonds	43,429	40,795	2,634
Canada savings bonds	24,978	15,812	9,166
Special non-marketable bonds	154	136	18
Treasury bills	19,375	21,770	- 2,395
	87,936	*78,513*	*9,423*
Less: Government's holdings of unmatured debt—			
Marketable bonds	110	96	14
Canada savings bonds held on account of employees	131	107	24
Special non-marketable bonds issued to Canada Pension Plan Investment Fund	154	136	18
	395	*339*	*56*
	87,541	*78,174*	*9,367*
Payable in foreign currencies—			
Marketable bonds	3,295	2,929	366
Notes and loans payable in foreign currencies	1,122	1,707	- 585
	4,417	*4,636*	*- 219*
Less: Government's holdings of unmatured debt—			
Marketable bonds	12	12	
	4,405	*4,624*	*- 219*
TOTAL UNMATURED DEBT	***91,946***	***82,798***	***9,148***
TOTAL	**134,107**	**118,461**	**15,646**

The accompanying notes are an integral part of this statement.
Details of assets and liabilities can be found in Sections 7 to 12 of this volume.

September 15, 1982.

I. A. STEWART,
Deputy Minister of Finance.

DAVID KIRKWOOD,
Deputy Receiver General for Canada.

GOVERNMENT OF CANADA

Statement of Use of Appropriations for the Year Ended March 31, 1982

(in millions of dollars)

			Balances			
	Appropriations	Used in the current year	Lapsed	Overexpended	Carried forward	Used in the previous year
Agriculture—Budgetary	1,160	1,125	14		21	882
Non-budgetary	**746**	**416**			**330**	**240**
Communications—Budgetary	1,158	1,134	7		17	1.170
Non-budgetary	**7**	**4**	(1)		**3**	**15**
Consumer and Corporate Affairs—Budgetary	98	95	3			77
Economic Development—Budgetary	15	13	2			11
Employment and Immigration—Budgetary	2,269	2,209	60			3,586
Non-budgetary	**19**	**2**			**17**	**15**
Energy, Mines and Resources—Budgetary	7,254	1,398	2,042	1	3,815	4,026
Non-budgetary	**819**	**419**	**18**		**382**	**512**
Environment—Budgetary	634	627	7			537
Non-budgetary	(1)				(1)	
External Affairs—Budgetary	1,342	1,285	53		4	1,084
Non-budgetary	**2,227**	**436**	**4**	(1)	**1,787**	**375**
Finance—Budgetary	19,825	19,824	1			14,767
Non-budgetary	**2,251**	**369**			**1,882**	**181**
Fisheries and Oceans—Budgetary	447	441	6			368
Non-budgetary	**38**	**7**			**31**	**−2**
Governor General—Budgetary	4	4	(1)			3
Indian Affairs and Northern Development—Budgetary	1,515	1,507	8	(1)	(1)	1,417
Non-budgetary	**89**	**32**	**9**		**48**	**36**
Industry, Trade and Commerce—Budgetary	984	990	9	15		655
Non-budgetary	**9,478**	**−220**	**8**		**9,690**	**−97**
Justice—Budgetary	208	200	8			175
Labour—Budgetary	72	71	1			56
Non-budgetary	**1**	**1**			(1)	
National Defence—Budgetary	5,979	6,028	(1)	49		5,077
Non-budgetary	**13**				**13**	
National Health and Welfare—Budgetary	17,832	17,818	14	(1)		15,782
National Revenue—Budgetary	822	816	6			677
Parliament—Budgetary	158	151	7			130
Post Office—Budgetary	1,989	1,156	833			1,597
Non-budgetary	**500**				**500**	
Privy Council—Budgetary	65	64	1			81
Public Works—Budgetary	2,385	2,188	158	14	53	1,852
Non-budgetary	**4,419**	**577**	**11**		**3,831**	**474**
Regional Economic Expansion—Budgetary	824	745	79			722
Non-budgetary	**29**	**4**	(1)		**25**	**−8**
Science and Technology—Budgetary	507	486	21			392
Secretary of State—Budgetary	2,282	2,264	13		5	2,174
Social Development—Budgetary	4	3	1			2
Solicitor General—Budgetary	1,248	1,184	64	(1)		1,055
Non-budgetary	(1)	(1)			(1)	(1)
Supply and Services—Budgetary	664	394	11		259	321
Non-budgetary	**16**	**−2**			**18**	**−2**
Transport—Budgetary	2,425	2,280	84	34	95	2,523
Non-budgetary	**922**	**−7**	**27**		**902**	**25**
Treasury Board—Budgetary	453	318	135			172
Veterans Affairs—Budgetary	1,160	1,140	20			1,006
TOTAL BUDGETARY	75,782	67,958	3,668	113	4,269	62,377
TOTAL NON-BUDGETARY	**21,574**	**2,038**	**77**	(1)	**19,459**	**1,764**

The accompanying notes are an integral part of this statement.
Details of use of appropriations can be found in Volume II.
(1) Less than $500,000.
Amounts in roman type are budgetary.
Amounts in **bold face** type are non-budgetary loans, investments and advances.

September 15, 1982.

I. A. STEWART,
Deputy Minister of Finance.

DAVID KIRKWOOD,
Deputy Receiver General for Canada.

Notes to the Financial Statements of the Government of Canada

1. Significant Accounting Policies

The accounting policies of the Government of Canada are based on concepts embodied in the British North America Act, the Financial Administration Act and other legislation.

i. *Basic concepts*

The two basic concepts on which the Government's accounting system is based are found in the British North America Act: first, the concept of the Consolidated Revenue Fund, which emanates from the requirement that all duties and revenues received, other than those reserved to the provinces, "shall form One Consolidated Revenue Fund"; second, the concept that the balance of the Fund, after certain prior charges, "shall be appropriated by the Parliament of Canada".

Parliament provides authority to make payments out of the Consolidated Revenue Fund in annual appropriation acts and other statutes (referred to as statutory appropriations). Spending authority granted in appropriation acts is for stated purposes and maximum amounts. Unless provided for in vote wording, unused spending authority granted in appropriation acts lapses at the end of the year for which granted. Spending authority provided by statutory appropriations is for specified purposes and for such amounts and such time as the acts prescribe. Spending authority provided by statutory appropriations generally does not lapse at the end of the year in which granted.

ii. *Government of Canada as an accounting entity*

For purposes of maintaining the accounts of Canada and preparing the Public Accounts as required by the Financial Administration Act, the Government of Canada is defined as all the departments named in Schedule A of the Act; any division or branch of the Public Service, including a commission appointed under the Inquiries Act, designated by the Governor in Council as a department for purposes of the Financial Administration Act; the staffs of the Senate, the House of Commons, and the Library of Parliament; and, any corporation named in Schedule B of the Financial Administration Act.

In accordance with the above definition, the corporations named in Schedules C and D of the Financial Administration Act are excluded from the Government of Canada as an accounting entity; therefore, their financial statements are not consolidated with those of the Government. The financial statements of these Crown corporations are presented in Volume III of the Public Accounts.

In addition, certain accounts and funds have financial statements which are not combined with those of the Government, but appear separately in Volumes I and II. These accounts and funds include the Exchange Fund Account, the Canada Pension Plan Account, the Unemployment Insurance Account and other similar accounts.

iii. *Classification of financial transactions*

The financial transactions of the Government as recorded in the accounts of Canada and reflected in the Public Accounts are classified into budgetary, non-budgetary, foreign exchange and unmatured debt transactions.

In general terms, budgetary transactions enter into the calculation of the annual deficit or surplus and are disclosed on the Government's Statement of Revenue and Expenditure. All other transactions lead to the acquisition or disposal of financial claims or to the creation or discharge of financial obligations, and are disclosed on a net basis on the Statement of Assets and Liabilities.

For purposes of accounting and reporting, the Public Accounts uses the classification in force at the end of the year to which the report refers, and presents figures for the previous year adjusted where necessary to provide consistency, except for the Post Office as described in Note 6.

iv. *Budgetary revenue*

Budgetary revenue consists of all tax and non-tax receipts which affect the deficit or surplus of the Government and includes revenue internal to the Government.

The Government generally reports revenue in the year in which it is received, with refunds of revenue allocated to the year in which they are actually paid.

Revenue is reported after deducting refunds paid and excludes amounts receivable, taxes collected on behalf of provinces and territories, receipts from contributors to the Canada Pension Plan, the Unemployment Insurance and the superannuation accounts, and receipts credited to other liability accounts.

In the Statement of Revenue and Expenditure, revenue is reported both gross and net. The difference between the two is revenue credited to appropriations, and postal receipts used to defray postal expenditures.

v. *Budgetary expenditure*

Budgetary expenditure consists of all charges to budgetary appropriations which affect the deficit or surplus of the Government. Such charges include those for work performed, goods received, services rendered, and transfer payments made, during the year, and, expenditure internal to the Government.

Expenditure excludes pensions paid under the Canada Pension Plan, superannuation and other pension accounts, Unemployment Insurance payments other than benefits to fishermen and payments charged to other liability accounts.

In the Statement of Revenue and Expenditure, expenditure is reported both gross and net. The difference between the two is revenue credited to appropriations, and postal receipts used to defray postal expenditures.

vi. *Assets*

Assets are defined as the financial claims acquired by the Government of Canada on outside organizations and individuals as a result of events and transactions prior to the accounting date.

However, as a result of the Government's accounting policies described above, and in accordance with the provisions of the Financial Administration Act and other legislation, certain financial claims are not reported on the Statement of Assets and Liabilities. The most important of these are accounts receivable for tax and non-tax revenue.

vii. *Liabilities*

Liabilities are defined as financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date.

However, as a result of the Government's accounting policies described above, and in accordance with the provisions of the Financial Administration Act and other legislation, certain financial obligations are not reported on the Statement of Assets and Liabilities. These include amounts for: items to be paid from statutory appropriations; unused annual vacation and benefits payable upon termination of employment; and, actuarial liabilities arising from the indexing to the cost of living of superannuate pensions and annuities.

viii. *Fixed assets*

The fixed assets of the Government, which include land, buildings, works and equipment, are charged to budgetary expenditure at the time of acquisition or construction. Their existence, however, is acknowledged on the Statement of Assets and Liabilities by reporting them at the nominal value of $1.

ix. *Accumulated deficit*

The accumulated deficit consists of the annual deficits and surpluses since Confederation, together with the write-off of certain amounts charged directly to this account.

x. *Valuation of assets and liabilities*

ASSETS

Assets are recorded at cost and are subject to annual valuation to reflect reductions from the recorded value to the estimated realizable value.

LIABILITIES

Liabilities are recorded in the amounts ultimately payable except for liabilities for the superannuation accounts of the Canadian Forces, the Public Service and the Royal Canadian Mounted Police, and the Government Annuities Account, which are valued on the actuarial basis.

The Canada Pension Plan Account and the Supplementary Retirement Benefits Account are not maintained on the actuarial basis. The Canada Pension Plan Act limits payments from the Consolidated Revenue Fund to the balance in the Canada Pension Plan Account.

xi. *Translation of foreign currency transactions*

Foreign currency transactions are translated and recorded in Canadian currency equivalents at the exchange rates prevailing at the transaction dates.

Assets and liabilities resulting from foreign currency transactions are, in turn, reported at year-end closing rates of exchange; net gains are credited to revenue, while net losses are charged to expenditure.

2. Contingent Liabilities of the Government of Canada

A contingent liability is a potential liability which may become an actual liability when one or more future events occur or fail to occur. The contingent liabilities of the Government consist of explicit guarantees by the Government, and potential losses arising from pending and threatened litigation relating to claims and assessments in respect of breach of contract, damages to persons and property, and like items.

The contingent liabilities of the Government as at March 31, 1982 amounted to $5,661 million and are summarized in the following table:

	(in millions of dollars)	
	1982	1981
i) Explicit guarantees by the Government:		
Obligations of entities that are not agents—		
Borrowings by Crown corporations	179	189
Borrowings by other than Crown corporations	1,426	1,335
Other explicit guarantees	1,920	919
ii) Pending and threatened litigation	2,136	1,728
	5,661	4,171

Details can be found in Section 12 of this volume.

3. Financial Information Regarding Agent Crown Corporations

All assets and liabilities of agent Crown corporations are assets and liabilities of the Government, due to the agency relationship. However, in accordance with the accounting policies of the Government, the accounts of agent Crown corporations are not consolidated with those of the Government, and only the financial transactions between the Government and agent Crown corporations, are recorded in the accounts of Canada.

Although borrowings by agent Crown corporations from lenders other than the Government are considered direct liabilities of the Government, such borrowings are not included in the accounts of Canada since they are intended to be, and in practice are, repaid directly by the corporations.

The following table summarizes financial information regarding agent Crown corporations as at March 31, 1982. For corporations with financial year-ends other than March 31, unaudited financial information is included in this table.

	(in millions of dollars)	
	1982	1981
ASSETS		
Total assets excluding claims against the Government and other agent Crown corporations	36,247	31,758
LIABILITIES		
Liabilities to other than Government		
Borrowings	7,252	5,630
Other	5,564	4,365
	12,816	9,995
NET ASSETS	23,431	21,763
EQUITY OF THE GOVERNMENT		
Obligations to the Government and other agent Crown corporations	19,730	18,186
Less: claims against the Government and other agent Crown corporations	1,314	1,052
	18,416	17,134
Share capital and contributed surplus	4,851	4,217
Retained earnings	164	412
TOTAL EQUITY	23,431	21,763

Details can be found in Section 7 of this volume.

For comparative purposes, the 1981 figures have been restated to conform to the 1982 presentation.

4. Insurance Programs

Certain agent Crown corporations operate insurance programs. In the event that such corporations did not have sufficient funds to meet their obligations, the Government would provide the required financing through appropriations, either budgetary or non-budgetary.

The following table summarizes information regarding such insurance programs. For corporations with financial year-ends other than March 31, unaudited financial information is included in this table.

	(in millions of dollars)			
Programs	Insurance in force	Net claims*	5 year average of net claims	Amount of fund or provision
Canada Deposit Insurance Corporation				
Current year	108,937	– 15	1	230
Previous year	96,082	21	4	120
Canada Mortgage and Housing Corporation				
Mortgage insurance fund(1)				
Current year	27,254	24	82	186
Previous year	27,465	20	92	293
Home improvement loan insurance fund				
Current year	25	(2)	(2)	6
Previous year	25	(2)		5
Rental guarantee fund				
Current year				24
Previous year				12
Export Development Corporation				
Accounts administered for the Government				
Current year	242			
Previous year	326	1		
Export insurance contracts entered into on its own behalf				
Current year	1,923	4	2	17
Previous year	1,693	8	2	7

* Refers to the difference between claims and amounts received from sales of related assets and other recoveries.

(1) The Corporation's valuation of this fund as at June 30, 1981 disclosed an actuarial deficiency estimated at approximately $210 million. This valuation is based on assumed future trends.

(2) Less than $500,000.

5. International Development Assistance—Loans and Subscriptions

i. *Loans to developing countries*

Included in loans to National governments of $3,198 million ($2,942 million in 1981) are loans to developing countries in the amount of $2,431 million ($2,149 million in 1981). These loans are part of Canada's international development assistance program and are either interest-free or bear interest at rates that were more favourable than those prevailing in Canada at the time the assistance was provided. The balances outstanding at March 31, grouped by term, are:

			(in millions of dollars)	
Term	Grace period before repayment commences	Interest rate	1982	1981
20 years	5 years	5%	35	19
25 years	5 years	6%	1	2
30 years	7 years	3%	178	168
30 years	7 years	*	8	2
35 years	5 years	*	4	4
40 years	10 years	*	1	1
50 years	10 years	*	2,204	1,953
			2,431	2,149

* Interest-free.

During the year, loan interest and commitment/service charges of $5 million ($3.9 million in 1981) was received from developing countries. Details can be found in Sections 7 and 14 of this volume and in Section 8 of Volume II.

ii. ***Subscriptions and loans to international organizations***

Included in Loans, investments and advances—International organizations of $2,585 million ($2,255 million in 1981) are subscriptions to the capital of the International Development Association and loans to other international financial institutions of $2,175 million ($1,877 million in 1981). These subscriptions and loans are also part of Canada's development assistance program. These institutions make loans to developing countries on terms similar to the loan assistance set out in sub-section i. Subscriptions to international organizations do not provide a return on investment. They are repayable on termination of the organization or on Canada's withdrawal therefrom. Details can be found in Sections 7 and 14 of this volume.

6. Post Office

The Post Office became a Crown corporation on October 16, 1981. Prior to this date, postal revenue, and operating and capital expenditure were reported primarily on a gross basis, that is, as budgetary revenue and budgetary expenditure. Since October 16, 1981, postal revenue is netted against postal expenditure with only the Government's net contribution to the Canada Post Corporation deficit reported as budgetary expenditure. Since the effects of this change have not been applied retroactively, revenue and expenditure reported in the Government's financial statements for the current year are not comparable with amounts reported for the previous year. The following is a summary of the treatment of postal operations in the financial statements:

	(in millions of dollars)	
	1982	1981
Postal revenue, as reported	484	1,109
Postal expenditure, as reported:		
Departmental expenditure	913	1,597
Canada Post Corporation	243	
	1,156	1,597
Excess of expenditure over revenue—Postal operations	672	488

Had the effects of the change in status of the Post Office been applied retroactively, that is if all postal revenue had been netted against postal expenditure, both budgetary revenue and expenditure would have been $484 million lower ($1,109 million lower in 1981), with no change in the reported deficit. The following table summarizes the effect that the retroactive treatment would have had on the financial statements:

	(in millions of dollars)	
	1982	1981
Total revenue, as reported	54,552	46,507
Less: postal revenue	484	1,109
Total revenue, as restated	54,068	45,398
Total expenditure, as reported	68,158	59,175
Less: postal revenue	484	1,109
Total expenditure, as restated	67,674	58,066
Deficit	13,606	12,668

7. Events Subsequent to the End of the Year

i. *Massey-Ferguson Limited*

In July 1982, the Department of Industry, Trade and Commerce disbursed $126,349,358 to acquire 62.5% of the outstanding series "D" preferred shares of Massey-Ferguson Limited.

This purchase results from an agreement dated June 15, 1981, between the Government of Canada and Massey-Ferguson Limited, whereby the Government guaranteed to redeem, upon request, five million preferred shares in the event of a failure by the Company to pay a dividend. On June 30, 1982, the Company defaulted on its dividend payment. The audited financial statements of the Government of Canada as at March 31, 1982 have not been adjusted to reflect this transaction.

ii. *Petroleum incentives program*

On June 29, 1982, Royal Assent was given to an Act respecting, in part, the petroleum incentives program. Under the related provisions of this Act, individuals and corporations are entitled to receive incentive payments from the Government, in respect of eligible oil and gas exploration expenses incurred on or after January 1, 1981.

The Government permitted individuals and corporations to waive receipt of the incentive payments and apply the amounts waived against the petroleum and gas revenue tax owing. As at September 9, 1982, claims received in respect of the period January 1, 1981 to March 31, 1982, amounted to approximately $500 million of which approximately $150 million had been waived.

In the year in which petroleum incentive claims are settled, the full amount of approved claims will be recorded as expenditure, and the portion waived will be recorded as petroleum and gas revenue tax.

OPINION OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

I have examined the following financial statements of the Government of Canada for the year ended March 31, 1982:

—Statement of Transactions;
—Statement of Revenue and Expenditure;
—Statement of Assets and Liabilities; and
—Statement of Use of Appropriations.

My examination was made in accordance with generally accepted auditing standards and included such inquiries, tests and other procedures as I considered necessary to enable me to report as required by Section 6 of the Auditor General Act.

Revenue for the year from oil export charges, a federal tax levied by Parliament, excludes receipts of $445 million which are included in a "specified purpose" liability account. Failure to include this amount in revenue is, in my view, not in accordance with the Government's accounting policy requirement, stated in Note 1(iv) to the financial statements, that revenue shall consist of all tax and non-tax receipts which affect the deficit or surplus of the Government. This $445 million amount has been reported as a liability in order to reflect the effect of a related undertaking by the federal government to pay to certain oil-producing provinces amounts equal to 50 per cent of oil export charges levied and collected by Canada during a specified period. Although I believe it appropriate to record and report a liability in respect of this undertaking, in my opinion, the liability relates to expenditure of "items to be paid from statutory appropriations" and would not be included in the financial statements in accordance with the accounting policy stated in Note 1(vii).

In my opinion, except for the failure to fully report revenue from oil export charges and the inclusion in liabilities of an amount payable under a statutory appropriation as described in the preceding paragraph, these financial statements present information in accordance with the stated accounting policies of the Government of Canada as set out in Note 1 to the financial statements on a basis consistent with that of the preceding year. However, because of the reservations set out in the following paragraph, in my opinion, these stated accounting policies are not appropriate for a fair presentation of the assets and liabilities and revenues and expenditures of the Government of Canada.

I have the following reservations concerning the appropriateness of the Government's stated accounting policies:

—Last year, I commented in my observations on the financial statements that, although they were entitled "The Financial Statements of the Government of Canada", certain activities of government were excluded, as described in Note 1(ii). As a result, the financial statements did not provide a comprehensive and complete summary of the Government's assets, liabilities, revenues and expenditures. This year, because of my growing concern about the pervasiveness of this matter, I include it in this opinion as a reservation. In my view, the accounting entity as defined in Note 1(ii) is inadequate in the following two respects.

(i) Significant departmental activities are reported in separate financial statements or accounts that are not combined in the Government's financial statements. These separate financial statements or accounts are presented in the other sections of Public Accounts Volume I indicated below.

- Exchange Fund Account (Section 10)
- Canada Pension Plan Account (Section 8)
- Unemployment Insurance Account (Section 8)
- Canadian Ownership Account (Section 8)
- other similar Accounts (Section 8)

The addition in 1981-82 of the Canadian Ownership Account (COA) to these excluded activities illustrates my concern. The reporting of transactions in the COA results in a net amount being reported as a liability. This amount represents the total of levies received in respect of oil and gas charges, reduced by loans to Petro-Canada. If the loans were reported as assets and the levies reported as revenue, as in my view they should be, at March 31, 1982 assets would be increased by $711 million, liabilities reduced by $75 million, and accumulated deficit and the deficit for the year then ended reduced by $786 million.

The effect on the financial statements of the COA transactions is significant and readily quantifiable and, in my view, resolvable with little study required. However, in the case of accounting for activities reported in the Exchange Fund, Canada Pension Plan and Unemployment Insurance Accounts, while the effects are significant and quantifiable, further study is required to determine to what extent and how these activities should be included in the Government's financial statements to best satisfy the information needs of users.

(ii) Investments in Crown-owned corporations and agencies at March 31, 1982 amounted to approximately $25 billion, or 63 per cent of the Government's net recorded assets. The assets, liabilities, revenues and expenditures of these entities are not consolidated in the accompanying financial statements. Further study is required to determine to what extent the activities of such corporations and agencies should be consolidated, and for those not consolidated, what alternative presentation would be appropriate. Until this fundamental question is resolved, I am unable to determine the effect of this matter on the Government's financial statements.

—When the international development assistance loans and subscriptions identified in Note 5 to the financial statements are issued, they are recorded as assets at the full amounts advanced in accordance with Notes 1 (vi) and (x). At the date of issue, the amounts advanced by Canada considerably exceed the asset value received by Canada because of the concessionary terms described in Note 5. In my view, any excess of amounts advanced over asset value received confers a benefit and constitutes expenditure in respect of international development assistance, which should be recorded and reported as such on the Statement of Revenue and Expenditure. I have estimated that if international development assistance loans and subscriptions were reported in this manner, reported assets would decrease and accumulated deficit would increase by approximately $3.9 billion as at March 31, 1982 ($3.4 billion as at March 31, 1981).

—As stated in Note 1 (vii), financial obligations are not recorded in respect of amounts payable under statutory appropriations, earned and unpaid annual vacation leave, employee termination benefits and actuarial liabilities arising from the indexing provisions of employee pension plans. In my view, all these financial obligations should be appropriately recorded and reported in the financial statements to provide a more complete disclosure of liabilities. I have estimated that if these obligations were recorded, reported liabilities and accumulated deficit would be increased by at least $14.5 billion as at March 31, 1982 ($11.5 billion as at March 31, 1981).

Additional information and comments on these reservations are included in my observations on the financial statements in Section 3 of this volume.

Ottawa, Canada
September 15, 1982

KENNETH M. DYE, F.C.A.
Auditor General of Canada

SECTION 3

1981-82
PUBLIC ACCOUNTS

Observations by the Auditor General on the Financial Statements of the Government of Canada

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Observations by the Auditor General on the Financial Statements of the Government of Canada

Introduction

I have examined the financial statements of the Government of Canada for the year ended March 31, 1982, which together with my opinion, are included in Section 2 of this volume. These financial statements are the Statement of Transactions, the Statement of Revenue and Expenditure, the Statement of Assets and Liabilities, and the Statement of Use of Appropriations.

My examination was made in accordance with generally accepted auditing standards and included such inquiries, tests and other procedures as I considered necessary to enable me to report as required by Section 6 of the Auditor General Act. This section provides that:

> "The Auditor General shall examine the several financial statements required by section 55 of the Financial Administration Act to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present *fairly* information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have." (italics added)

The word *fairly* is used to express the auditor's judgement as to the appropriateness of the selection and application of accounting principles to the particular circumstances of an enterprise. Because of the significant and pervasive effect on the financial statements of the matters reported in my reservations concerning the appropriateness of three of the Government's stated accounting policies, I have concluded that:

> ". . . these stated accounting policies are not appropriate for a *fair* presentation of the assets and liabilities and revenues and expenditures of the Government of Canada." (italics added)

My opinion includes four reservations. The first reservation, which is new this year, is particularly significant because it concerns a failure by the Government to comply with its own stated accounting policies. The second, third and fourth reservations concern the appropriateness of the Government's stated accounting policies. The second reservation (the Accounting Entity) is also new this year, although I referred to the issue last year in my observations on the financial statements. The third and fourth reservations (International Development Assistance Loans and Subscriptions, and Unrecorded Liabilities) are consistent with last year, except there is a more complete estimate of unrecorded liabilities arising from the indexing provisions of employee pension plans.

The observations that follow provide additional explanatory information on these four reservations and on related concerns.

Failure to Comply with a Stated Accounting Policy

In the second paragraph of my opinion on the financial statements, I call attention to a $445 million reduction of oil export charge revenue, and related increase in deposit and trust account liabilities, resulting from recording and reporting as a liability a portion of oil export charges collected during the year.

I take exception to this accounting and reporting of oil export charge revenue because it results, in my view, in:

- an incomplete reporting of revenues received, which is contrary to the accounting policy requirement stated in Note 1 (iv) that revenue shall consist of all tax and non-tax receipts which affect the deficit or surplus of the Government;

- the inclusion in liabilities of an amount payable under a statutory appropriation, which is contrary to the accounting policy requirement stated in Note 1(vii) that "items to be paid from statutory appropriations" shall be excluded from reported liabilities; and
- a method of accounting whereby expenditures pursuant to a statutory appropriation granted by Parliament are effectively eliminated from reporting in the financial statements of the Government.

Oil export charges are a tax levied by Parliament. Since the inception of this tax in 1975, receipts during a year have been reported as tax revenues of that year in accordance with the policy set out in Note 1(iv) to the financial statements.

The Minister of Finance, in his October 1980 budget speech, announced the intention of the Government to pay to certain oil-producing provinces 50 per cent of charges collected in respect of oil exported from those provinces. Agreements were subsequently concluded with the provinces whereby payments would be made to them which would result in a "sharing" of oil export charges subsequent to October 31, 1980; 50 per cent to the federal government and 50 per cent to these provinces.

Under the Canadian Constitution, revenues of Canada may be appropriated only by the Parliament of Canada. The Government tabled a bill to amend the Petroleum Administration Act to provide appropriation authority for payment to certain provinces of their agreed share of export charges collected. Passage of the bill was delayed. As an interim measure, the Government included authority to make the payments in an act called "An Act to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and to provide for payments to certain provinces" (SC 1980-81-82, Chapter 94). This Act received Royal Assent on April 7, 1982. Authority to pay certain producing provinces their agreed share of export charges on a continuing basis was included in an act called "An Act to amend the Petroleum Administration Act and to enact provisions related thereto" (SC 1980-81-82, Chapter 114) assented to on July 7, 1982.

The Government maintains that it is collecting 50 per cent of the oil export charges on behalf of certain producing provinces. It has therefore treated the provincial share of collections—$445 million made during the period November 1, 1980 to January 31, 1982—as a "specified purpose" liability account. The legislation authorizing the collection of this tax does not direct that it be used for any "specified purpose" or accounted for in any special way. Similarly there is no wording in the appropriation authorities referred to in the preceding paragraph that direct the Government to pay 50 per cent of oil export charge collections, or any part of such collections, to the provinces. Therefore, it is my view that all the oil export charges collected should continue to be accounted for and reported as general purpose tax revenues.

I do agree that the Government has a liability under the agreements negotiated with certain producing provinces to pay them amounts equal to 50 per cent of oil export charges collected. However, the parliamentary appropriations authorizing payment are statutory appropriations, and government policy stated in Note 1(vii) is to exclude items to be paid from statutory appropriations from reported liabilities. In my view, this policy should be changed so as to require all liabilities to be paid from statutory appropriations to be recorded in the year the liabilities are incurred, consistent with the accounting for liabilities to be paid from annually-lapsing appropriations. This matter is discussed further in my fourth reservation concerning unrecorded liabilities.

My final concern with the accounting and reporting of this amount relates to future years. In the preface to the financial statements, the Government explains that the accounting policies it has adopted are designed primarily to provide an accounting of the financial resources appropriated by Parliament. The authorities under which payments may be made to provinces in respect of oil exports are appropriations granted by Parliament. However, if the accounting followed this year is also followed in subsequent years, payments to the provinces will be excluded from reported expenditure and from reported use of appropriations. As a consequence, Parliament will not receive the accounting for resources appropriated by it that the financial statements are designed to provide.

The Accounting Entity

Significant assets, liabilities, revenues and expenditures of the Government of Canada are reported in separate financial statements of various accounts, funds and Crown-owned corporations that are not now combined with the financial statements of the Government. As a result, although the financial statements contained in Section 2 of this volume are entitled "The Financial Statements of the Government of Canada", they do not provide a comprehensive and complete summary of the Government's assets, liabilities, revenues and expenditures.

With the increasing size and complexity of government, the practice of reporting government activities in separate financial statements or accounts that are not combined with the financial statements of the Government has become more significant and more proliferate. As a result, the Government's financial statements have become less comprehensive and complete and, accordingly, less informative.

As described in the third paragraph of Note 1(ii), financial statements or accounts for the following departmental activities are not combined with the financial statements of the Government:

- Exchange Fund Account;
- Canada Pension Plan Account;
- Unemployment Insurance Account;
- Canadian Ownership Account; and
- other similar Accounts.

Transactions should be recorded and reported in accordance with their economic substance to achieve meaningful summary level financial reporting for the Government of Canada. If, for example, a receipt is, in substance, federal tax revenue, it should be reported as such in the Government's financial statements, regardless of how it is reported elsewhere for other purposes.

The reporting of transactions in the new Canadian Ownership Account illustrates my concern. It seems clear to me that transactions now reported in the Canadian Ownership Account as a net liability constitute, in substance, revenues and assets which should be reported as such in the Government's financial statements. Further study is required to determine how best to include other transactions in respect of the above departmental activities in these statements.

Recognizing that such a study has not yet been completed, and for purposes of illustration only, I have summarized below certain levies that are not currently reported as revenues on the Government's Statement of Revenue and Expenditure.

	(in millions of dollars)	
	1982	1981
Canada Pension Plan contributions	3,282	2,689
Unemployment Insurance contributions	4,887	3,399
Canadian Ownership oil & gas charges	786	
Portion of oil export charges	445	
Unconsolidated levies	9,400	6,088

The significance of these amounts in relation to the size of the Government, as reflected by its revenues, and the size of the Canadian economy, as reflected by Gross National Product, is shown by the following table. It compares total tax revenues now reported in the Government's financial statements with total tax revenues that would be reported if the above levies were included.

	1982		1981	
	$ millions	% of GNP	$ millions	% of GNP
Total tax revenues now reported				
Net	47,955	14.6	40,650	14.0
Gross	51,935	15.8	42,209	14.6
Total tax revenues if above levies included	61,335	18.7	48,297	16.7

Note: Gross National Product used in these calculations is for the calendar year ending within the fiscal year.

Because the effect is readily quantifiable and easily understood, I have used a possible effect on total reported tax revenues to illustrate my concern about certain departmental activities not being combined with the financial statements of the Government. The issue is, however, much broader and also affects reported non-tax revenues, expenditures, assets and liabilities. The full effects cannot be quantified until there is general agreement on how the government accounting entity should be defined and on the reporting concepts to be followed. As discussed in the following paragraphs, this should include a consideration of the extent to which the activities of Crown-owned corporations and agencies should be consolidated in the financial statements of the Government and, for those not consolidated, what alternative presentation would be appropriate.

As described in the second paragraph of Note 1(ii), financial statements of many Crown-owned corporations and agencies are also not consolidated with the financial statements of the Government. At March 31, 1982, investments in such corporations and agencies, before allowance for valuation, amounted to approximately $25 billion, or 63 per cent of the Government's net recorded assets.

As explained in Note 6 to the financial statements, the activities of the Post Office Department were transferred to the new Crown-owned Canada Post Corporation (CPC) on October 16, 1981. In accordance with the second paragraph of Note 1(ii), the financial statements of CPC are not consolidated with those of the Government because CPC is a Crown corporation named in Schedule C of the Financial Administration Act. As a consequence, beginning October 16, 1981, Canada's postal revenues and expenditures have been reported only in the financial statements of CPC. Only the net contribution from the Consolidated Revenue Fund to the deficit of CPC is reported as postal expenditure in the Government's financial statements for the period October 16, 1981 to March 31, 1982. Although nothing has changed in substance, significant revenues and expenditures have been excluded from the Government's statements simply by varying the legal form of the entity carrying out Canada's postal activities. Such changes in reporting make it difficult to compare meaningfully the information reported in these financial statements over a period of years.

In my view, the current definition of the Government of Canada accounting entity based on legal form is not satisfactory. The accounting entity should be defined in such a way that the economic substance of an activity determines how that activity should be reported in the financial statements. Only in this way will a comprehensive, consistent reporting of government activities from year to year be achieved. Further study is required to determine how this may best be accomplished.

International Development Assistance Loans and Subscriptions

In accordance with the stated accounting policies set out in Notes 1(vi) and (x) to the financial statements, the full amounts of special assistance loans to developing countries and subscriptions to the special development funds of international financial institutions are recorded as assets. At the date of issue, the amounts advanced by Canada considerably exceed the asset value received by Canada because of the concessionary terms described in Note 5. In my view, any excess of amounts advanced over asset value received confers a financial benefit on developing countries and constitutes expenditure in respect of international development assistance that should be recorded and reported as such on the Statement of Revenue and Expenditure. If this expenditure had been recorded in this way when the loans and subscriptions were originally issued, reported assets would be decreased and accumulated deficit increased by approximately $3.9 billion as at March 31, 1982 ($3.4 billion as at March 31, 1981).

Canada provides assistance to developing countries by making grants and contributions and special assistance loans to them and by subscribing to special development funds of international financial institutions. The loans and subscriptions, like grants and contributions, confer financial benefits on developing countries and are an important part of Canada's official program of assistance to developing countries. The grants and contributions, because they are not repayable or otherwise recoverable, are made under budgetary authority, recorded as expenditure and included in the deficit. The loans and subscriptions, because they are repayable or considered to be eventually realizable, are made under non-budgetary authority and recorded as assets.

The amount of special assistance loans included in loans to national governments at March 31, 1982 is $2,431 million. Of these loans, $2,204 million are repayable over 50 years without interest, with no payments for the first 10 years. At March 31, 1982, subscriptions to special development funds of international financial institutions amounted to $2,175 million. These special development funds make loans to developing countries under terms similar to the special assistance loans made by Canada. The terms of these subscriptions provide that, on withdrawal from or termination of the special development funds, Canada will receive a pro-rata share of the funds' assets. Because of the nature of such assets, it would take many years for Canada to realize its share on termination or withdrawal.

As described above, amounts advanced by the Government in the current and prior years in respect of special assistance loans and subscriptions to special development funds will be recovered or realized without interest over a significant number of years. Since interest is not provided, the Government is not compensated for the use of its funds over the period the loans and subscriptions are outstanding. As a result, when loans and subscriptions are issued, the value given is significantly greater than the value received. As stated in the Study of the Accounts of Canada: "Ideally, the Government's Statement of Assets and Liabilities should come as close as possible to reflecting the true economic value of the assets and liabilities recorded on it."

Sometimes a "true economic value" for financial claims is not available, and an alternative approach is required. For example, when a loan is made to a Crown corporation by the Government, it is recorded as an asset at the amount advanced. To compensate for the use of its funds, the Government charges interest on the loan. In the absence of a market-determined interest rate, the Government calculates an arbitrary rate by reference to its cost of borrowing. Accordingly, with the addition of interest to compensate for use of funds, the amount advanced is equal to the asset value received.

When special assistance loans and subscriptions to special development funds are issued, they should be similarly recorded as assets only to the extent of their economic value at that date. Such economic value can be calculated as the value today of amounts that will be recovered or realized in the future. Any excess of amounts advanced over asset value received should be recorded as expenditure. As with loans to Crown corporations, the selection of an appropriate interest rate for calculating asset value received is, to some extent, arbitrary. However, it would seem reasonable to determine a rate by reference to the Government's cost of borrowing in the same manner as rates are set for loans to Crown corporations.

If special assistance loans and subscriptions had been recorded and reported as assets at their economic value when issued, the amount outstanding would have been approximately $700 million as at March 31, 1982. In my opinion, this is the amount at which these loans and subscriptions should be recorded in the accounts of Canada at the year end. The difference of $3,900 million between the amount at which they are currently recorded ($4,600 million) and the amount at which they should be recorded ($700 million) constitutes expenditure in respect of international development assistance that should have been reported as such on the Statement of Revenue and Expenditure and included in the accumulated deficit in the year the loans and subscriptions were issued. This would have properly recognized the cost of benefits conferred by these loans and subscriptions in the year they were issued.

Unrecorded Liabilities

The Government has defined liabilities as financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date. However, under its stated accounting policies, certain financial obligations that fit this definition have not been recorded. These unrecorded liabilities include financial obligations at the year end related to items to be paid from statutory appropriations, employee termination benefits, and actuarial liabilities arising from the indexing provisions of employee pension plans (including the Canadian Forces and the Royal Canadian Mounted Police). My Office has estimated that these unrecorded liabilities amount to approximately $14.5 billion at March 31, 1982 ($11.5 billion at March 31, 1981). In addition to these estimated amounts, there is a further financial obligation for earned and unpaid annual vacation leave that also fits the Government's definition of liabilities but is not recorded.

Following is a summary of those unrecorded liabilities which have been estimated:

	(in millions of dollars)	
	1982	1981
Items to be paid from statutory appropriations		
Subsidies under the Railway Act	250	200
Entitlements under the petroleum incentives program	350	
Acquisition of Massey-Ferguson Limited shares	126	
	726	200
Employee termination benefits	1,300	1,200
Actuarial liabilities arising from the indexing provisions of employee pension plans	12,500	10,100
	14,526	11,500

The liability for subsidies under the Railway Act has been estimated by the Canadian Transport Commission. The liabilities for entitlements under the petroleum incentives program and for acquisition of Massey-Ferguson Limited shares have been taken from Note 7 to the Government's financial statements. The liability for employee termination benefits and the actuarial liabilities arising from the indexing provisions of employee pension plans (including the Canadian Forces and the Royal Canadian Mounted Police) were estimated by the Department of Insurance, based on methods and assumptions used by the Department for purposes of current actuarial reports on the Government's superannuation accounts.

The estimate of unrecorded liabilities related to employee pensions that I included in my reservation last year did not include the full unrecorded actuarial liabilities arising from the indexing provisions of employee pension plans. I reported only that portion which represents the present value of the indexed portion of pensions for persons that were then retired, without provision for future indexation. This amount was $4,200 million. The corresponding amount for 1982 is $5,500 million as reported on page 8.7 of Section 8 of this volume. I have this year reported the full unrecorded actuarial liabilities arising from the indexing provisions of employee pension plans because, in consultation with actuaries and with colleagues from the accounting profession, I concluded that this fuller measure of the liability is the one most appropriate to use for government financial reporting.

Unrecorded liabilities for earned and unpaid annual vacation leave have not been estimated by my Office because the information required was not readily available during our audit. However, based on annual salary and wage costs, they are also likely to be substantial. The Government should estimate these unrecorded liabilities at the end of each fiscal year by referring to personnel and other records maintained by departments and agencies.

Based on the Government's definition of liabilities as financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date, the exclusion from reported liabilities of the significant financial obligations described above results in an incomplete reporting of liabilities as defined. This directly affects the reported accumulated deficit and financial position at the year end. In my opinion, financial obligations at the year end related to items to be paid from statutory appropriations, employee termination benefits, earned and unpaid annual vacation leave, and actuarial liabilities arising from the indexing provisions of employee pension plans should be appropriately recorded in the accounts of Canada and reported in the financial statements to provide a more complete accounting and disclosure of liabilities.

Reporting of Summary Financial Information

In my observations last year, I stated that the Office of the Comptroller General had begun a study of the purposes of summary financial reporting for the Government and of the feasibility of developing comprehensive financial statements. This important study is progressing. I also reported that the Canadian Institute of Chartered Accountants (CICA) had established a Public Sector Accounting and Auditing Committee to recommend accounting and auditing principles and practices for governments. These efforts are encouraging, but much remains to be done. The Standing Committee on Public Accounts, the Government and my Office all have an interest in the development of improved summary financial reporting for the Government of Canada and in the work of the CICA. I believe it is crucial that appropriate consultation take place among the interested and affected parties so that the common goal of providing financial information that best serves the needs of users will be achieved as soon as possible.